啟迪國際有限公司

TUS International Limited

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 872

ANNUAL REPORT

2016

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Ma Chi Kong Karl *(Chairman)*
Mr. Shen Xiao
Mr. Yang Ming
Mr. Du Peng
Mr. Woo Kar Tung Raymond
Ms. Cheung Joanna Wai Sze

Non-executive Directors
Mr. Tsang Ling Biu, Gilbert
Mr. Sheng Ruzhi

Independent Non-executive Directors
Hon. Quat Elizabeth *(JP)*
Mr. Poon Chiu Kwok
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

COMPANY SECRETARY

Mr. Lau Chi Yuen

AUTHORISED REPRESENTATIVES

Mr. Du Peng
Mr. Lau Chi Yuen

AUDIT COMMITTEE

Mr. Poon Chiu Kwok *(Committee Chairman)*
Mr. Tsang Ling Biu, Gilbert
Hon. Quat Elizabeth *(JP)*
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

NOMINATION COMMITTEE

Mr. Ma Chi Kong Karl *(Committee Chairman)*
Mr. Shen Xiao
Hon. Quat Elizabeth *(JP)*
Mr. Poon Chiu Kwok
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

REMUNERATION COMMITTEE

Mr. Poon Chiu Kwok *(Committee Chairman)*
Mr. Ma Chi Kong Karl
Mr. Yang Ming
Hon. Quat Elizabeth *(JP)*
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

REGISTERED OFFICE

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Haidian District, Beijing, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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39 Queen's Road Central
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4/F, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KYI-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
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AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F, Gloucester Tower
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LEGAL ADVISERS

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As to Cayman Island Law:
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Cayman Islands

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Shanghai Pudong Development Bank Co., Ltd.

STOCK CODE

872

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

This is my first letter to our shareholders since taking office as the chairman in mid-2016, and I would like to share with you my work and my view of our business. On behalf of the board of directors of TUS International Limited ("the Company"), I am also pleased to present the audited financial results of the Company and its subsidiaries (together, "the Group") for the financial year ended 31 December 2016 in this report.

BUSINESS REVIEW

2016 was a year of instability and surprises in both global political and economic environment. Following the BREXIT referendum in June 2016, the presidential election in the United States (the "US") in November 2016 and the young administration of the US still taking shape, geo-political tensions and market volatility continues in 2017. In China, government authorities have tightened the capital controls on remittance and foreign exchange since the beginning of 2016. Renminbi has continued to depreciate against Hong Kong dollars and US dollars in the course of the last 18 months. All these uncertainties post new challenges to the business environment.

We are confident that the competitive strength of the Group is two-fold: (1) "TUS" in the name of the Company, which is the acronym of Tsinghua University Science-Park, represents the strong support from Tsinghua University and its extensive resources to the Group; and (2) the experience and dedication of our strong management team which is testimonial to the ability of the Group to attract and retain new talents.

Transforming our businesses

In 2016, we have undertaken a critical review of our businesses and realigned our resources. In March 2016, the Group disposed of the entire equity interest in Smooth Ever Limited (together with its subsidiaries, the "Smooth Ever Group") which were identified as traditional automotive components manufacturing business with relatively low gross profit margin and had been operating at a loss. Although the disposal resulted in a reduction of our turnover in relation to the sales of traditional automotive electronic products and safety spare parts, it attributed to a gain on disposal of subsidiaries to the Group in 2016. Apart from streamlining the existing businesses, we have been actively seeking new investment opportunities in the midst of great technology transformation in the automobile industry with a view to generating sustainable and better returns to the shareholders of the Company.

On 3 March 2017, the Group entered into a series of agreements to acquire a minority stake of approximately 6% equity interest in Suzhou Zhihua Automobile Electronics Co., Ltd. ("Suzhou Zhihua"), which focuses on advanced driver assistance system ("ADAS"). Please refer to the announcement published by the Company on 3 March 2017 for further details. Suzhou Zhihua was founded by an alumnus of Tsinghua University in January 2012. The Group further provides financial assistance to Suzhou Zhihua with a view to increasing our stake to around 17.5% equity interest (as enlarged by the proposed subscription in the capital increase of Suzhou Zhihua pursuant to the relevant agreement) in Suzhou Zhihua. We have a deep conviction that the automobile industry is undergoing a transformation, and we believe the investment in Suzhou Zhihua is significant to the Group since its product is at the core of this paradigm shift. Automotive manufacturers are not only building better cars in an ever-competitive market, but many of them are also building a "computer on four wheels" which will heavily rely on green energy, and more importantly internet of things (IoT). Suzhou Zhihua is well positioned to take advantage of the dynamics in the industry and has been branching out to other areas, including cameras with surround view parking assistance systems, lane departure warning systems, forward collision warning systems and other ADAS technologies. We shall continue to seek strong collaborations with Suzhou Zhihua's management and its shareholders.

CHAIRMAN'S STATEMENT

Finance Lease Business

We completed the acquisition of Optimus Financial Group Limited, which is principally engaged in the business of providing car trading and finance lease of motor vehicles and equipment via its subsidiaries, in December 2015. The finance lease business contributed approximately HK$90.2 million to our revenue in 2016, representing an increase of about 13 times as compared to 2015 due to an increase in interest element of the lease receipts on lease receivables when it falls due and a full year of operation being accounted for in 2016. In the second half of 2016, we have made significant progress in increasing and diversifying the leasing portfolio in order to cover automobile inventory financing and equipment financing. Funding of the finance lease business primarily comes from overseas (either by way of equity or debt) which is denominated in Hong Kong dollars or US dollars, and is therefore subject to foreign exchange exposure. Stringent capital controls since early 2016 and the lengthened approval procedures had made it more important to seek new domestic funding to support further portfolio expansion.

Car-carried Purifier

In June 2016, we entered into an agreement with Suzhou Yadu Environmental Protection Technology Co. Limited and Suzhou Yadu Cloud Technology Co. Limited ("Yadu Cloud") which is specialised in research and development of car-carried purifiers and related air technology. Please refer to the announcement published by the Company on 30 June 2016 for further details. We have made capital contribution to Yadu Cloud. Pending the capital contribution from our joint venture partner and approvals from authorities, Yadu Cloud will be in a position to commence businesses of the development, manufacturing, distribution and sales of car-carried purifier in due course and we expect that the formal transfer of the car-carried purifier business from Yadu Environmental Protection Technology Co. Limited to Yadu Cloud, which being one of the conditions precedent to the capital increase, will be completed in the first half of 2017.

OUTLOOK AND FUTURE PROSPECTS

The business environment, both domestically in China and globally, shall be challenging throughout 2017. Chinese economy is believed to grow steadily, but at a slightly slower pace. The anticipated US interest rate hike will continue in 2017. However, we believe that the Group is well positioned, with the backing of a continuous growing Chinese economy and the support from our major shareholder, to enjoy reasonable growth in the long run. We had a good start in 2017 by raising a total of HK$300.0 million, which is mainly from the market, via the proposed issuance of convertible bonds as announced in March 2017. Tuspark Venture Investment Ltd. ("Tuspark Venture"), a substantial shareholder of the Company and a wholly-owned subsidiary of Tus-Holdings Co., Ltd. ("Tus-Holdings"), is one of the subscribers taking up one third of the issuance. The convertible bonds issuance is expected to be closed in second quarter of 2017. This fund-raising exercise will help us replenish our working capital and provide dry powder to make further accretive acquisitions.

In June 2016, we brought in two senior members to join the Company, namely Mr. Shen Xiao and Mr. Yang Ming, as the President and Chief Operating Officer, respectively. Both Mr. Shen Xiao and Mr. Yang Ming graduated from Tsinghua University and bring in a wealth of experience in the financial and industrial sectors to the Group. Moreover, we have also started building an international merger and acquisition team. The primary goal of the team is to evaluate the latest automotive acquisition opportunities overseas, particularly in the US and Europe, and try to bring the business to expand in the China market. These significant hires are testimony of the Group's commitment in developing our existing business as well as looking for new opportunities. We shall continue to invest in various business targets in order to ensure sustainable growth in the value of the Company.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our investors and shareholders of the Company for their understanding and support for our Group during this period of transition and I would also like to thank all the staff for their unrelenting efforts in helping to achieve the Company's objectives. The management team will continue to fulfill our duty of creating long term value for our shareholders.

Ma Chi Kong Karl
Chairman

Hong Kong, 30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

FINANCIAL REVIEW

During the year ended 31 December 2016, the revenue and the average gross profit margin of the Group were approximately HK$216.8 million and approximately 9.0% respectively, while it were approximately HK$194.6 million and approximately 11.0% respectively in last year. Revenue for the year ended 31 December 2016 increased by 11.4% which was mainly due to our expansion into the automobile inventory financing business and sale of cars in 2016.

The revenue of the Group's automotive electronic products and safety spare parts decreased by 73.5% from approximately HK$66.0 million for the year ended 31 December 2015 to approximately HK$17.5 million for the year ended 31 December 2016. The decrease was mainly attributable to the downturn of the traditional automotive safety product industry, particularly in the manufacturing sector, the Group intends to reorganise its existing businesses so as to reallocate its financial and other resources in strengthening businesses of the Group which are considered to have higher development potential in order to generate more return to the shareholders. Therefore, the Company disposed of the entire interest in Smooth Ever Group on 1 March 2016 which is principally engaged in the production and sales of traditional automotive components in the PRC. The revenue of the Group's car trading decreased by approximately 10.9% from approximately HK$122.3 million for the year ended 31 December 2015 to approximately HK$109.1 million for the year ended 31 December 2016. The decrease was mainly due to a drop in car trading in the PRC which partly offset by an increase in car trading in Hong Kong. The revenue of the Group's finance lease of motor vehicles and equipment increased by approximately 1,344.7% from approximately HK$6.2 million for the year ended 31 December 2015 to approximately HK$90.2 million for the year ended 31 December 2016. The increase was mainly attributable to the increase in interest element of the lease receipts on lease receivables when it falls due and a full year of operation being accounted for in 2016.

During the year ended 31 December 2016, the Group recorded approximately HK$16.9 million of other loss (net) while it was approximately HK$77.7 million last year. The decrease was mainly due to provision for (i) impairment loss recognised on intangible assets of approximately HK$19.2 million; (ii) impairment loss recognised on goodwill of approximately HK$5.1 million; (iii) impairment loss recognised on interests in an associate of approximately HK$31.5 million; (iv) provision for inventories of approximately HK$15.0 million and (v) loss on disposal of property, plant and equipment of approximately HK$4.1 million were recorded in last year while there was only provision for impairment loss recognised on other receivables of approximately HK$4.0 million and impairment loss recognised on intangible assets of approximately HK$13.0 million in 2016.

In 2016, the administrative expenses of the Group were approximately HK$63.2 million, which was decreased by approximately HK$12.8 million as compared with 2015. This was mainly due to the disposal of the entire equity interest of Smooth Ever Limited during the year ended 31 December 2016.

The finance costs in 2016 were increased by approximately HK$2.9 million to approximately HK$4.5 million as compared with 2015. This was mainly due to the imputed interest, which is a non-cash item, on convertible bond issued during the year.

During the year ended 31 December 2016, the Group recorded a gain on disposal of subsidiaries amounting to approximately HK$27.0 million (year ended 31 December 2015: HK$Nil), arising from the disposal of the entire interest in Smooth Ever Limited which was engaged in the production and sales of traditional automotive components in the PRC via its subsidiaries.

For the year ended 31 December 2016, the loss attributable to the owners of the Company significantly reduced by 78.8% to approximately HK$30.6 million, while it was approximately HK$144.7 million last year. The decrease in loss was mainly due to the decrease of other loss and gain on disposal of subsidiaries as discussed above.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2016, the Group had cash and cash equivalents of approximately HK$143.8 million (2015: approximately HK$240.1 million) and net current assets of approximately HK$277.0 million which was decreased by approximately HK$102.3 million as compared with the prior fiscal year. The decrease in cash and cash equivalents was mainly due to no placing activities held in 2016 while there was placing of shares completed in the prior fiscal year. The total non-current assets of the Group were approximately HK$260.7 million in 2016, while it was approximately HK$152.9 million last year. The increase in total non-current assets was mainly due to available-for-sale investments of approximately HK$136.0 million purchased during the year. Details of which are set out in the announcements of the Company dated 16 May 2016 and 27 May 2016, respectively and the "Material Acquisitions and Disposals" section in this report.

As at 31 December 2016, the Group had non-current liabilities of approximately HK$57.3 million, which increased by approximately HK$42.8 million as compared with the last fiscal year. The increment was mainly due to the convertible bond issued in 2016. Details of which are set out in the announcements of the Company dated 16 May 2016 and 27 May 2016, respectively and the "Material Acquisitions and Disposals" section in this report.

The Group also had short-term borrowings of approximately HK$9.7 million which represented other loans in the statement of financial position. Such loans were obtained from independent third parties with a fixed interest rate of 8% which were not yet matured at the year end date. The short-term borrowings were primarily used to finance short-term cash flows for the operations of the Group.

The Group intends to principally finance its operations and investing activities, among others, with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopts a treasury policy which allows the Group to invest its surplus funds in different investment grade debt securities or other investment vehicles.

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2016, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

CHARGE OF ASSETS

As at 31 December 2016, there was no pledge of assets by the Group.

GEARING RATIO

The Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 16.3% in 2016 from 15.9% in 2015.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those set out in the "Subsequent Events" and "Business Review" in this report, the Group does not have other authorised but not contracted for capital expenditure commitments as at 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSALS

Disposal of interest in Smooth Ever Limited

On 1 March 2016, the Company entered into an agreement with an independent third party to dispose of the entire issued share capital of Smooth Ever Limited, which is a direct wholly-owned subsidiary of the Company and is principally engaged in production and sales of traditional automotive components in the PRC through its subsidiaries, at a consideration of HK$34.0 million. The transaction was completed in March 2016.

Acquisition of minority interest in Sino Partner and disposal of certain premium cars

On 16 May 2016, Splendid Best International Limited ("Splendid Best") (an indirect wholly-owned subsidiary of the Company), the Company and an independent third party entered into an agreement, pursuant to which (among others) Splendid Best agreed to purchase and an independent third party agreed to sell the Sale Shares (as defined below) at a total consideration of HK$136.0 million.

Sale Shares represent the 572 issued ordinary shares of US$1 each in the capital of Sino Partner Global Limited ("Sino Partner"), approximately 8% of the then existing issued share capital of Sino Partner or 7.88% of the issued share capital of the Sino Partner as enlarged by the issue of the conversion shares upon full conversion of the convertible notes under the terms of the agreement.

At the same time, Splendid Best agreed to sell and the vendor of Sino Partner agreed to purchase the 19 classic and/or premium cars at a total consideration of HK$55.0 million. Completion of sale and purchase of the Sale Shares and the 19 classic and/or premium cars took place on 27 May 2016.

Subscription of increased share capital in Suzhou Yadu and provision of shareholder's loan

On 30 June 2016, Fair Glory Limited (an indirect wholly-owned subsidiary of the Company), Suzhou Yadu Environmental Protection Technology Co., Limited ("Suzhou Yadu") and Yadu Cloud entered into the capital increase and subscription agreement pursuant to which Fair Glory Limited and Suzhou Yadu shall make the capital contribution of RMB40.8 million and RMB34.2 million, respectively, in cash to Yadu Cloud. Upon completion, Yadu Cloud will be held as to 51% by Fair Glory Limited and 49% by Suzhou Yadu.

In addition, Fair Glory Limited has undertaken to provide the shareholder's loan in an amount of RMB15.0 million to Yadu Cloud after completion. The shareholder's loan will be unsecured, bearing interest at a rate of 5% per annum, and repayable within 3 years. The capital contribution, together with the said shareholder's loan, are intended to replenish liquidity required for the operations of Yadu Cloud. Details of which are set out in the announcement of the Company dated 30 June 2016. The transaction was in the process of completion subject to approvals from regulating authorities in respect of the capital contribution having been obtained.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS *(CONTINUED)*

Subscription of shares in Tuspark Global

On 29 July 2016, Dynamic Plus Investments Limited (a wholly-owned subsidiary of the Company), as subscriber, entered into a subscription agreement, pursuant to which the subscriber has conditionally agreed to subscribe for approximately 28.57% of the issued share capital of Tuspark Global Limited ("Tuspark Global") as enlarged by the allotment and issue of the subscription shares, at the aggregate subscription price of HK$10.0 million (the "Tuspark Global Subscription"). Tuspark Global, via its subsidiaries, is principally engaged in the operation and management of workhubs and innovation hubs and ancillary business in Hong Kong and the PRC. The Board is of the view that the future prospects of Tuspark Global will be promising, and the subscription offers an opportunity for the Group to further participate in such business. The deposit in the sum of HK$10.0 million paid by the Group to Tuspark Global pursuant to the related memorandum of understanding has be applied for the settlement of the subscription price in full at completion.

As at the date of the abovementioned subscription agreement, Tuspark Global is owned as to 60% by Tuspark Venture (which is the substantial shareholder of the Company) and 40% by City Corporation Limited (which is a company owned as to 50% by Ms. Cheung Joanna Wai Sze, our executive Director, and an aggregate of 50% by two companies which are wholly-owned by Mr. Cheung Hon Kit, the father of Ms. Cheung. As such, each of the Tuspark Global, Tuspark Venture and City Corporation Limited is regarded as a connected person of the Company for the purpose of Chapter 14A of the Listing Rules, and the Tuspark Global Subscription as contemplated under the subscription agreement constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. Mr. Du Peng, our executive Director, being a director of Tuspark Venture and certain subsidiaries of Tuspark Global is also considered to have a material interest in the transaction.

The Tuspark Global Subscription was completed in December 2016.

Acquisition of minority interest in Ziguang Innovative

On 3 November 2016, Splendid Period Limited (an indirect wholly-owned subsidiary of the Company), entered into an agreement with Suzhou Qijun Investment Management Company Limited ("Suzhou Qijun") to acquire 14% of equity interest of Suzhou Ziguang Innovative Education Development Company Limited ("Ziguang Innovative", and together with its subsidiaries the "Ziguang Innovative Group") at a consideration of RMB126.8 million (the "Ziguang Innovative Acquisition"). Among the various businesses operations, Ziguang Innovative Group, through the west zone of Suzhou TUS Modern Science City（蘇州啟迪時尚科技城）, is primarily engaged in the research and development of new technology and the provision of innovation hubs by leasing office spaces to newly set-up companies in return of rental incomes. The Directors believe that synergies would be created through the sharing of resources between the Group's existing businesses and that of Suzhou TUS Modern Science City. It is also expected that the acquisition will further strengthen the Group's presence and network in the businesses of technology innovation incubators. The consideration shall be satisfied in cash and payable by three instalments (i.e 10% within ten days after signing of the agreement; 10% within 15 days after the updated business license of Ziguang Innovative is issued; and remaining 80% within 12 months after payment of the second installment).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS *(CONTINUED)*

Acquisition of minority interest in Ziguang Innovative *(Continued)*

As at the date of the abovementioned agreement, Ziguang Innovative is owned as to 82% by Jiangsu Qidi Science Park Development Company Limited ("Jiangsu Qidi") and 18% by Suzhou Qijun. Jiangsu Qidi is an indirect non-wholly owned subsidiary of Tus-Holdings. Mr. Ma Chi Kong Karl, the chairman of the Board and an executive Director of the Company, indirectly holds 45.5% of the equity interest of Suzhou Qijun. Mr. Wang Jiwu, the Chairman of Tus-Holdings, also indirectly holds 45.5% of the equity interest of Suzhou Qijun. Tuspark Venture, a connected person of the Company by virtue of it being a substantial shareholder of the Company and a wholly-owned subsidiary of Tus-Holdings, is entitled to exercise or control the exercise of more than 30% of the voting power at the general meetings of Ziguang Innovative. Ziguang Innovative is also an associate of Tuspark Venture. Therefore, each of Ziguang Innovative, Jiangsu Qidi and Suzhou Qijun is regarded as a connected person of the Company for the purpose of Chapter 14A of the Listing Rules, and accordingly the Ziguang Innovative Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Mr. Du Peng, the executive Director, being a director of Tuspark Venture is also considered to have a material interest in the transaction.

The Ziguang Innovative Acquisition was in the progress of completion subject to the approvals required under the application PRC laws and regulations to be obtained.

Saved as disclosed above, there was no other significant investments during the year.

CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the Tuspark Global Subscription and Ziguang Innovative Acquisition constituted connected transactions of the Company and details of which are set out in the sections headed "Material Acquisitions and Disposals – Subscription of shares in Tuspark Global" and "Material Acquisitions and Disposals – Acquisition of minority interest in Ziguang Innovative" to this report, respectively.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2016 are disclosed in note 41 to the consolidated financial statements of the Company under the standards for preparing such financial statements. Such related party transactions are not connected transactions as required to be disclosed in this report under Rule 14A.71 of the Listing Rules.

Details of the non-exempted connected transactions have been disclosed in the sections headed "Connected Transactions" and "Material Acquisitions and Disposals" to this report and the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS

The entering into of memorandum of understanding

On 18 January 2017, the Company entered into a non-binding memorandum of understanding on strategic cooperation (the "MOU") with The Regents of the University of Michigan and TusStar Incubator Investment Ltd. ("TusStar"). The purpose of the MOU is to develop and expand a framework of cooperation among the parties through setting up an incubation center in Michigan with venture capital and private equity funds equipped, in order to support the technology development and commercialization of smart mobility and new energy vehicles for the global market. Details of which are set out in the announcement of the Company dated 18 January 2017.

Termination agreements in respect of joint venture arrangement

On 27 January 2017, the termination agreements were entered into between (1) Pine Mega Limited, an indirect wholly-owned subsidiary of the Company and Kunshan Qidi Science Park Development Company Limited（昆山啟迪科技園發展有限公司）; (2) Marvel Rise Limited, an indirect wholly-owned subsidiary of the Company and Ziguang Innovative; and (3) Shine Venture Limited, an indirect wholly-owned subsidiary of the Company and Nanjing Qidi Science Park Asset Management Company Limited（南京啟迪科技園資產管理有限公司）, pursuant to which the parties have agreed to terminate the joint venture arrangement in Kunshan, Suzhou and Nanjing, the PRC, details of which are set out in the announcement of the Company dated 27 January 2017.

Proposed formation of an equity joint venture

On 17 February 2017, Sunny Voyage Limited ("Sunny Voyage"), a direct wholly-owned subsidiary of the Company, entered into a joint venture agreement with TusStar in relation to a proposed formation of an equity joint venture company to be established in the BVI, with limited liability by Sunny Voyage and TusStar pursuant to the terms of the joint venture agreement. The joint venture company shall be owned as to 50% by Sunny Voyage and 50% by TusStar. Details of which are set out in the announcement of the Company dated 17 February 2017.

Issue of convertible bonds under specific mandate

On 1 March 2017, the Company entered into a subscription agreement with Tuspark Venture, Munsun Smart Mobility Fund LP and CM Securities Investment Limited (collectively the "Subscribers") and CM Securities (Hongkong) Company Limited (as sole lead arranger), pursuant to which (among others) each of the Subscribers conditionally agreed to subscribe the convertible bond of HK$100.0 million and the Company conditionally agreed to issue the convertible bond in an aggregate principal amount of and for a price no more than HK$300.0 million. The subscription agreement and the transactions contemplated thereunder, including the issue and allotment of the conversion shares under the specific mandate of the Company, are subject to the fulfillment or waiver of certain conditions precedent. Details of the transaction are set out in the announcements of the Company dated 1 March 2017, 10 March 2017 and 13 April 2017, and circular of the Company dated 27 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS *(CONTINUED)*

Proposed acquisition of equity interest in Suzhou Zhihua, provision financial assistance and option

On 3 March 2017, Suzhou Qiyizhi Management Enterprise Limited ("Suzhou Qiyizhi"), being an indirect wholly-owned subsidiary of the Company, entered into (1) an agreement between Shanghai Dachen Hengsheng Venture Capital Centre (Limited Partnership) ("Dachen Hengsheng"), Mr. Xiong Renjie ("Mr. Xiong") and Suzhou Zhihua pursuant to which Suzhou Qiyizhi agreed to acquire 3.4496% equity interest in Suzhou Zhihua agreed to be sold by Dachen Hengsheng and 1.5504% equity interest in Suzhou Zhihua agreed to be sold by Mr. Xiong in consideration of RMB15.0 million; (2) an agreement between Suzhou Junqi Shihe Investment Management Enterprise (Limited Partnership) ("Suzhou Junqi") and Suzhou Zhihua, pursuant to which Suzhou Qiyizhi agreed to acquire 1% equity interest in Suzhou Zhihua from Suzhou Junqi in consideration of RMB3.0 million; and (3) a co-operation agreement entered into between Suzhou Qiyizhi, Suzhou Zhihua and Suzhou Yinwo Investment Management Enterprise (Limited Partnership) in relation to, the provision of financial assistance in the total amount of RMB40.0 million by the Company to Suzhou Zhihua, and the grant of an option by Suzhou Zhihua to Suzhou Qiyizhi pursuant to which Suzhou Qiyizhi or its designated nominee shall be entitled to (should it choose to) contribute to the capital increase of Suzhou Zhihua, representing around 17.5% equity interest in Suzhou Zhihua (as enlarged by the proposed subscription in the capital increase of Suzhou Zhihua pursuant to the relevant agreement). Details of which are set out in the announcement of the Company dated 3 March 2017.

Grant of share options

On 31 March 2017, the Company had granted a total of 1,000,000 share options to an employee of the Group. Details of which are set out in the announcement of the Company published on even date.

Saved as disclosed above, so far as is known to the Directors, there are no other subsequent events occurred after 31 December 2016, which may have a significant effect, on the assets and liabilities of future operations of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group employed 50 staff in the PRC and Hong Kong, which decreased by 239 staff as compared with 31 December 2015 due to the disposal of the Smooth Ever Group. The Group's remuneration to employees, including Directors' emoluments slightly increased by approximately HK$0.8 million to approximately HK$36.7 million in 2016. The increment is mainly due to the three senior management and executive Directors joined the Board in June and July 2016 offset with the decrement in remuneration to employees due to disposal of the Smooth Ever Group.

The Group reviews employee remuneration from time to time and salary increment is normally approved annually or by special adjustment depending on length of services and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the performance of the Group.

Further particulars regarding the Directors' emoluments and the five highest paid individuals are set out in notes 14 and 15 to the financial statements, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

RETIREMENT SCHEMES

The Group maintains a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of HK$30,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in the PRC whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees' salaries.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

CAPITAL STRUCTURE

On 2 June 2015, there was a placing of 147,364,000 new ordinary shares of the Company at the placing price of HK$0.866 per share to not less than six independent placees (who being institutional, professional and/or private investors) by the Company. The nominal value per share is HK$0.01 and the aggregate nominal value of the placing shares is HK$1,473,640. The placing completed on 15 June 2015. Details of the placing are set out in the announcements of the Company dated 2 June 2015 and 15 June 2015. The Directors have been identifying further investment opportunities in order to diversify its existing business portfolio and maximise the return to the shareholders. The Directors considered that the placing represented an opportunity to provide additional working capital for the Group while broadening its shareholder and capital base thereby increasing the liquidity of the shares.

The net proceeds of the placing were approximately HK$124.2 million after deducting relevant expenses incurred in relation to the placing. The net placing price was approximately HK$0.843 per placing share. HK$10.0 million of the total net proceeds had been used by the Group as subscription of approximately 28.57% of the issued share capital of Tuspark Global for future business expansion and development, details of the subscription are set out in the announcements of the Company dated 2 November 2015, 29 April 2016 and 29 July 2016, respectively. Approximately HK$71.9 million of the total net proceeds had been further used by the Group for acquisition of 51% of the entire issued share capital of Optimus Financial Group Limited. Details of such acquisition are set out in the announcement of the Company dated 3 December 2015. HK$20.0 million of the total net proceeds had been used by the Group for acquisition of 7.88% of the issued share capital of Sino Partner, details of the acquisition are set out in the announcements of the Company dated 16 May 2016 and 27 May 2016, respectively. Approximately HK$14.3 million of the total net proceeds had been used by the Group as the first instalment for acquisition of 14% of the issued share capital of Ziguang Innovative, details of the acquisition are set out in the announcements of the Company dated 3 November 2016 and 6 January 2017, and circular of the Company dated 14 December 2016.

The remaining balance of the proceeds of approximately HK$8.0 million was kept in bank for future business operation and expansion, development and potential investment and/or general working capital of the Group.

As at 31 December 2016, the total number of issued shares of the Company was 928,184,888 shares.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. To the best of knowledge and belief, the Directors consider that the following are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices, like foreign exchange rates and interest rates. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Exchange Rate Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2016, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

For interest-sensitive investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through variety of means.

Equity Price risk

Equity price risk arises from fluctuation in market prices of the Group's investment in financial assets. The investment portfolio is frequently reviewed and monitored by the senior management to ensure prompt action taken and the loss arising from the changes in the market values is capped within an acceptable range.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalents to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES *(CONTINUED)*

Economic Environment

All of the Group's facilities, operations and its revenue are principally located in and derived from Hong Kong and the PRC. The Group's results of operations and financial condition therefore depend on the economies of Hong Kong and the PRC. The economy of Hong Kong is significantly affected by the developments in Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative economic developments, and other regional economies may also deteriorate.

The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in the Group. Such initiatives include recycling of used papers and energy saving.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognises that employees are our valuable assets. Thus the Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard. The Group also understands that it is important to maintain good relationships with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the year under review, there was no material and significant dispute between the Group and its business partners or bank enterprises.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ma Chi Kong Karl, aged 46, has been appointed as the chairman of the Company and an executive Director since 15 July 2016. Mr. Ma graduated from University of Michigan with a Bachelor's degree in Business Administration, and from London Business School of the University of London with a Master's degree in Finance. He obtained the professional qualifications of the Chartered Financial Analyst and is a member of Hong Kong Society of Financial Analysts.

Mr. Ma has been engaged in the investment and financing, fund management and other works in many international investment banks including Credit Suisse. He has more than 20 years of experience in financial business and investment. He also has extensive government relations and business networks all over the mainland China, Hong Kong, Macao and overseas. Currently, Mr. Ma acts as the Co-chairman of the board of directors of China Private Ventures Limited, the director of Tus-Holdings Co., Ltd., the Chairman of Tus Financial Company Limited, the director of Luso International Banking Ltd. and a member of Beijing Committee of The Chinese People's Political Consultative Conference. Tus-Holdings Co., Ltd. is the holding company of Tuspark Venture Investment Ltd., a substantial shareholder holding approximately 22.89% of the issued share capital of the Company as at the date of this report.

Mr. Shen Xiao, aged 38, has been appointed as the president of the Company and an executive Director since 21 June 2016. Mr. Shen holds a Master's degree and a Bachelor's degree in Management (Accounting) from Tsinghua University. He is a fellow member of the Association of Certified General Accountant of Canada and a fellow member of Chartered Financial Analyst Institute.

Mr. Shen had 15 years of working experience in investment banking business with BOC International Holdings Limited, Credit Lyonnais Securities Asia Limited (CLSA) and J.P. Morgan Securities (Far East) Limited, and was responsible for corporate finance activities and cross-border merger and acquisitions for the companies in the PRC.

Mr. Yang Ming, aged 38, has been appointed as the chief operating officer of the Company and an executive Director since 21 June 2016. Mr. Yang holds a MPA (Master of Public Administration) from Harvard University, a Master's degree in Management and a Bachelor's degree in English and minor degree in Business Management from Tsinghua University. He is a Chinese Registered Financial Analyst (Level 1) and a Project Management Professional Certification holder. He is a committee member of finance in Western Returned Scholars Association.

Mr. Yang is a director of Tus-Digital Group and special assistant to chairman of Tus-Holdings Co., Ltd. He was also the vice general manager of Tus Science and Technology Service Co., Ltd. Prior to that, he worked at China Minsheng Banking Corp., Ltd. (a listed company on the Main Board of the Stock Exchange (Stock Code: 1988) and the Shanghai Stock Exchange (Stock Code: 600016.SHH)) and Ping An Bank Co., Ltd. (formerly known as Shenzhen Development Bank Co., Ltd.) (a listed company on the Shenzhen Stock Exchange (Stock Code: 000001.SZ)).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Du Peng, aged 41, has been appointed as an executive Director since 12 June 2015. Mr. Du studied in Tsinghua University from 1994 and graduated with a Bachelor of Engineering degree in School of Material Science and a Master of Business Administration degree in School of Public Management.

Mr. Du has joined Tus-Holdings Co., Ltd. (previously named as Tsinghua University Science Park Development Centre) from 2002, and is currently the vice president of Tus Holdings Co., Ltd. He is also the chairman of Beijing Tus Street Assets Management Co., Ltd. and the managing director of Tus Financial Company Limited (both companies are subsidiaries of Tus-Holdings Co., Ltd.). Mr. Du is also the independent director of Beijing Kingtop Technology Company Limited (a listed company in Over the Counter Bulletin Board with stock code of 430064.NEEQ). He was the director of Unisplendour Corporation Limited (a listed company in the Shenzhen Stock Exchange with stock code of 000938.SZ). Mr. Du's public service positions include the vise chairman of the 29th council of Tsinghua Alumni Association of Hong Kong, the vice chairman of Zhongguancun Listed Companies Association, the executive vice chairman of Zhongguancun Committee of Industrial Alliance, council member of China Council for International Investment Promotion – Investment and Financing Committee and chief supervisory of Z-Park Association of Internet Finance.

Mr. Woo Kar Tung Raymond, aged 47, has been appointed as the chief financial officer of the Company and an executive Director since 1 September 2015. Mr. Woo holds a Bachelor of Commerce degree from The University of New South Wales and is a member of the Australian Society of Certified Practicing Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Woo is currently a non-executive director of IRC Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1029). He is also an independent non-executive director of Yuanda China Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2789) and SMIT Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2239).

Ms. Cheung Joanna Wai Sze, aged 29, has been appointed as an executive Director since 25 June 2015. She holds a Bachelor of Arts degree in Economics from Brown University.

Ms. Cheung is an active leader in the Hong Kong technology startup scene and co-founded City Champion International Limited in 2014 (later renamed to TGN Innovation Limited) and has grown the company's core business of co-working spaces to become one of the largest operators in Hong Kong under the Tuspark brand. Prior to that, Ms. Cheung worked at Nomura International (HK) Limited in Fixed Income Sales and Trading Department, as well as at 8 Securities, a leading Fintech startup founded in Hong Kong. Ms. Cheung also co-founded two technology companies, both of which were participated in e-commerce business. Ms. Cheung is also a director of Nikkin Lifts & Escalators Limited, a company incorporated in Hong Kong and principally engaged in installation and maintenance of lifts and escalators.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Biu, Gilbert, aged 46, has been appointed as a non-executive Director since 15 May 2015. Mr. Tsang holds a Master's Degree in Commerce (with Professional Accounting and Finance) and a Bachelor's Degree in Science (with Information Systems) from University of New South Wales in Australia, and is also the fellow member of CPA Australia.

Mr. Tsang has wealth of experience in private equity and corporate finance. Throughout his career, he held various positions at Cortus Capital, Calibration Partners Limited, Barclays Capital Asia Limited, The Securities and Futures Commission of Hong Kong, Peregrine Brokerage Limited and Credit Lyonnais Securities Asia Limited (CLSA). He is the co-founder and principal of Cortus Capital. Cortus Capital is an Asia focused private equity platform with deep and significant access to bespoke deal flow across Asia, including many low profile family-orientated business. He is also the co-founder and partner of Calibration Partners Limited. Calibration Partners Limited provides independent, strategic and focused advice in mergers and acquisitions, capital raisings, structured debt, restructurings and bespoke direct investment opportunities.

Mr. Sheng Ruzhi, aged 48, has been appointed as a non-executive Director since 20 November 2015. Mr. Sheng holds a Bachelor degree in Economics from Jiangxi University of Finance and Economics.

Mr. Sheng is currently the vice chairman of Tus Financial Company Limited. Mr. Sheng has extensive experience and network in 2 respect of enterprise management and investment.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hon. Quat Elizabeth *(JP)*, aged 50, has been appointed as an independent non-executive Director since 6 January 2017.

Hon. Quat Elizabeth is currently a Legislative Council member of the Hong Kong Special Administrative Region ("HKSAR") and the Chairman of its Panel on Information Technology and Broadcasting. Hon. Quat Elizabeth successively founded a number of non-profit organisations. Hon. Quat Elizabeth was elected as a member of the HKSAR Election Committee for the Information Technology Subsector in 2006 and 2011 and a member of the Shatin District Council in 2007 and 2011. She was elected as a Legislative Council member for the New Territories East in 2012 and 2016.

Mr. Chen Jin, aged 49, has been appointed as an independent non-executive Director since 25 June 2015. Mr. Chen holds a Doctor of Philosophy in Management Engineering from Zhejiang University. Mr. Chen is a professor in the Innovative Enterprise and Strategy Department and assistant to the head of Tsinghua University School of Economics and Management. Mr. Chen is also the executive of Research Centre for Technological Innovation, Tsinghua University. He was an associate professor from 1995 to 1998 and was a professor from 1999 to 2005 in the Management Department of Zhejiang University. He was also the deputy director of The Institute for Management Science & Information Systems, Zhejiang University. Mr. Chen is also a member of the Education Committee of the Chinese Academy of Engineering ("CAE"), the member of the Division of Management Science in Science & Technology Commission of Minister of Education, and vice chairman of the Chinese Association for Science of Science and S&T Policy.

As at the date of this announcement, Mr. Chen is an independent director at various companies, the shares of which are listed on the Shenzhen Stock Exchange, being Zhejiang NHU Company Ltd. (Stock Code: 002001.SZ), Zhejiang Semir Garment Co., Ltd. (Stock Code: 002563.SZ) and Shunfa Hengye Corporation (Stock Code: 00631.SZ). Mr. Chen is also an independent director of Shanghai Shenqi Pharmaceutical Investment Management Co., Ltd. (Stock Code: 600613.SHH), the shares of which are listed on Shanghai Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Poon Chiu Kwok, aged 54, has been appointed as an independent non-executive Director since 1 September 2015. Mr. Poon was awarded the postgraduate diploma in laws by the University of London. He holds a Bachelor's degree in Laws and a Bachelor's degree in Business Studies and a Master's degree in International Accounting. He is a fellow member of the Hong Kong Securities and Investment Institute, a fellow member of The Institute of Chartered Secretaries and Administrators, and a fellow member of The Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel and Professional Development Committee.

Mr. Poon has over 25 years of experience in corporate finance and listed company governance and management. Mr. Poon is currently an executive director and company secretary of Huabao International Holdings Limited (a listed company on the Main Board of the Stock Exchange, stock code: 336), and also serves as an independent non-executive director of the following public listed companies: AUX International Holdings Ltd. (a listed company on the Main Board of the Stock Exchange, stock code: 2080); Changan Minsheng APLL Logistics Co., Ltd. (a listed company on the Main Board of the Stock Exchange, stock code: 1292); Greentown Service Group Co. Ltd. (a listed company on the Main Board of the Stock Exchange, stock code: 2869); Jinchuan Group International Resources Co. Ltd. (a listed company on the Main Board of the Stock Exchange, stock code: 2362); Sany Heavy Equipment International Holdings Company Limited (a listed company on the Main Board of the Stock Exchange, stock code: 631); Sunac China Holdings Limited (a listed company on the Main Board of the Stock Exchange, stock code: 1918); Tonly Electronics Holdings Limited (a listed company on the Main Board of the Stock Exchange, stock code: 1249) and Yuanda China Holdings Limited (a listed company on the Main Board of the Stock Exchange, stock code: 2789). Within three years to the date of this report, Mr. Poon was also an independent non-executive director of CSSC Offshore & Marine Engineering (Group) Company Limited (a listed company on the Main Board of the Stock Exchange, stock code: 317 and the Shanghai Stock Exchange (Stock Code: 600685.SHH)); and an independent director of Ningbo Port Company Limited (a listed company on the Shanghai Stock Exchange, stock code: 601018.SHH).

Mr. Wong Yuk Lun, Alan, aged 42, has been appointed as an independent non-executive Director since 2 September 2014. Mr. Wong holds a Bachelor's degree of Accounting and Finance in University of Sunderland.

Mr. Wong had been working with various accounting firms and commercial companies for about 20 years of working experience and was responsible for works related to financial management, taxation, audit and non-audit services. Mr. Wong was also an independent non-executive director of Bolina Holding Co., Ltd. (a company listed on the Main Board of the Stock Exchange, stock code: 1190) from 7 July 2016 to 27 March 2017.

SENIOR MANAGEMENT

Mr. Lau Chi Yuen, aged 41, holds a Master's degree in Professional Accounting from the University of Southern Cross. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants. Mr. Lau has been appointed as the Company Secretary of the Company on 2 September 2014. Mr. Lau had been serving with a company listed on the Stock Exchange as company secretary, authorised representative and executive director of subsidiaries of listed companies. He has many years of experience in and was mainly responsible for works related to company secretarial, corporate finance, merger and acquisition, investor relationship and corporate governance. Mr. Lau is currently the company secretary of ECI Technology Holdings Ltd., a listed company on the Growth Enterprise Market of the Stock Exchange (stock code: 8013), which is principally engaged in provision of extra-low voltage solutions primarily on central control monitoring systems in Hong Kong. He has been working in the company secretarial, accounting, auditing and taxation fields for over 15 years.

REPORT OF THE DIRECTORS

The Directors have the pleasure in presenting their report together with the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in production and sale of automotive related products, car trading and provision of financing service for leasing motor vehicles and equipment. The performance of the Group and the prospects of its businesses (as required to be disclosed by Schedule 5 of the Hong Kong Companies Ordinance) have been discussed in the Chairman's Statement as set out on pages 3 to 4 of this report. Such discussion forms part of this Report of the Directors. The principal activities and other particulars of its subsidiaries are set out in note 22 to the consolidated financial statements.

The Group's revenue for the year is principally attributable to the sales of automotive related products, car trading and provision of financing service for leasing motor vehicles and equipment net of sales tax and value added tax. An analysis of the revenue from the principal activities during the financial year is set out in note 7 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the group's businesses, and the compliance with relevant laws and regulations, as well as the Group's environmental policies and performance which have a significant impact on the Company, can be found in the Management Discussion and Analysis set out on pages 14 to 15 and the Chairman's Statement as set out on pages 3 to 4 of this report. Such discussion forms part of this Report of the Directors.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 56 to 59 and page 146.

DIVIDEND

The Directors did not recommend the payment of final dividend in respect of the year ended 31 December 2016 (2015: HK$Nil).

CHARITABLE DONATIONS

No donation was made by the Group during the year (2015: HK$Nil).

FIXED ASSETS

Details of movements in fixed assets are set out in note 18 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements and consolidated statement of changes in equity, respectively.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 35(a) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float of not less than 25% of the Company's issued shares as required by the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the law in the Cayman Islands.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings as at 31 December 2016 are set out in note 31 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	25.37%	
Five largest customers in aggregate	67.24%	
The largest supplier		20.18%
Five largest suppliers in aggregate		62.86%

Neither the Directors, their close associates nor any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors

Mr. Ma Chi Kong Karl *(Chairman)* (Appointed on 15 July 2016)
Mr. Shen Xiao (Appointed on 21 June 2016)
Mr. Yang Ming (Appointed on 21 June 2016)
Mr. Li Feng (Retired on 20 June 2016)
Mr. Du Peng
Mr. Woo Kar Tung Raymond
Ms. Cheung Joanna Wai Sze
Mr. Lam Wai Hung (Resigned on 15 July 2016)

Non-executive Directors

Mr. Tsang Ling Biu, Gilbert
Mr. Sheng Ruzhi

Independent non-executive Directors

Hon. Quat Elizabeth *(JP)* (Appointed on 6 January 2017)
Hon. Shek Lai Him Abraham *(GBS, JP)* (Resigned on 6 January 2017)
Mr. Chen Jin
Mr. Poon Chiu Kwok
Mr. Wong Yuk Lun, Alan

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company. All annual remuneration packages of the Directors were determined on arm's length negotiations between the parties based on their respective contributions to and responsibilities in the Company.

Each of the two non-executive Directors and the four independent non-executive Directors has a service term of three years with the Company. The service can be terminated by either party by giving three months' notice to the other party.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Long positions in issued shares

Name of director	Capacity	Registered shareholders	Underlying interest	Approximate percentage of shareholding
Ma Chi Kong Karl	Beneficial Owner	46,100,000	9,280,000	5.97%
Shen Xiao	Beneficial Owner	–	9,280,000	1.00%
Yang Ming	Beneficial Owner	–	9,280,000	1.00%
Du Peng	Beneficial Owner	–	9,280,000	1.00%
Woo Kar Tung Raymond	Beneficial Owner	–	9,280,000	1.00%
Cheung Joanna Wai Sze	Beneficial Owner	–	9,280,000	1.00%
Sheng Ruzhi	Beneficial Owner	1,872,000	4,640,000	0.70%
Tsang Ling Biu, Gilbert	Beneficial Owner	–	4,640,000	0.50%

Apart from the foregoing, none of the Directors and chief executives of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Scheme") for the issuance of in aggregate no more than 10% in the nominal amount of the aggregate of shares in issue on 19 June 2009 ("2009 Share Option Scheme"). Following the refreshment of the scheme mandate limit as approved by shareholders at the general meeting on 6 October 2016, the total number of shares which may be allotted and issued upon exercise of all options to be granted under the 2009 Share Option Scheme was refreshed up to 10% of the number of shares in issue as at 6 October 2016. A summary of principal terms of the 2009 Share Option Scheme was disclosed in the circular of the Company issued on 29 April 2009.

The total number of securities available for issue under the 2009 Share Option Scheme as at 31 December 2016 was 64,978,488 shares which represented approximately 7.00% of the issued share capital of the Company as at 31 December 2016.

Eligible participants of the Scheme would be any person or an entity belonging to any of Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

The purpose of the Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its Shareholders as a whole.

Unless approved by the Shareholders, the total number of shares issued and to be issued upon the exercise of share options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1.0% of the number of the shares of the Company in issue.

The Scheme was effective on 19 June 2009 and unless otherwise cancelled or amended, will remain valid and effective for the period of 10 years from that date.

The exercise price for the options shall be determined by the Board which must be at least the higher of:

(1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day;

(2) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(3) the nominal value of the Shares.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(CONTINUED)*

During the year ended 31 December 2016, a total of 67,360,000 share options were granted. On 22 January 2016, the Company cancelled a total of 37,120,000 share options and granted a total of 39,520,000 share options to certain Directors, senior management and/or employees of the Group. Details of the cancellation and grant of the said share options are set out in the announcement of the Company dated 22 January 2016 and the circular of the Company dated 5 May 2016. The grant of the said share options was approved at the general meeting held on 20 June 2016. On 12 October 2016, the Company granted a total of 27,840,000 share options to certain Directors of the Group. Details of the grant of the said share options are set out in the announcement of the Company dated 12 October 2016.

During the year ended 31 December 2016, certain existing Directors and other eligible participants have interests in share options to subscribe for shares in the Company. Details of such interests and movement of share options granted by the Company are shown as below:

			Number of share options						
Name	Date of grant	Exercise period	As at 1 January 2016	Grant during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2016	Exercise price per share
Existing Directors									
Ma Chi Kong Karl	12 October 2016	12 October 2017 – 11 October 2026	–	9,280,000	–	–	–	9,280,000	0.822
Shen Xiao	12 October 2016	12 October 2017 – 11 October 2026	–	9,280,000	–	–	–	9,280,000	0.822
Yang Ming	12 October 2016	12 October 2017 – 11 October 2026	–	9,280,000	–	–	–	9,280,000	0.822
Du Peng	25 June 2015	25 June 2015 – 24 June 2016	9,280,000	–	–	(9,280,000)	–	–	1.840
	22 January 2016	22 January 2017 – 21 January 2026	–	9,280,000	–	–	–	9,280,000	0.820
Woo Kar Tung Raymond	1 September 2015	1 September 2015 – 31 August 2016	4,640,000	–	–	(4,640,000)	–	–	0.930
	22 January 2016	22 January 2017 – 21 January 2026	–	9,280,000	–	–	–	9,280,000	0.820
Cheung Joanna Wai Sze	25 June 2015	25 June 2015 – 24 June 2016	9,280,000	–	–	(9,280,000)	–	–	1.840
	22 January 2016	22 January 2017 – 21 January 2026	–	9,280,000	–	–	–	9,280,000	0.820
Tsang Ling Biu, Gilbert	25 June 2015	25 June 2015 – 24 June 2016	4,640,000	–	–	(4,640,000)	–	–	1.840
	22 January 2016	22 January 2017 – 21 January 2026	–	4,640,000	–	–	–	4,640,000	0.820
Sheng Ruzhi	22 January 2016	22 January 2017 – 21 January 2026	–	4,640,000	–	–	–	4,640,000	0.820
Former Director									
Wang Nai (appointed on 1 September 2015 and resigned on 20 November 2015)	1 September 2015	1 September 2015 – 31 August 2016	4,640,000	–	–	(4,640,000)	–	–	0.930
Other eligible participants									
Employees	22 January 2016	22 January 2017 – 21 January 2026	–	2,400,000	–	–	–	2,400,000	0.820
Consultant – Woo Kar Tung Raymond (appointed as executive Director and chief financial officer on 1 September 2015)	25 June 2015	25 June 2015 – 24 June 2016	4,640,000	–	–	(4,640,000)	–	–	1.840
			37,120,000	67,360,000	–	(37,120,000)	–	67,360,000	

Note: Subsequent to the year end of 2016, 1,000,000 share options have been granted to an employee of the Group to subscribe for shares in the Company. Details of which are set out in the announcement of the Company dated 31 March 2017.

REPORT OF THE DIRECTORS

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2016, the following persons (other than the Directors and chief executives of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

	Note	Capacity	Number of ordinary shares of the Company held	Approximately percentage of total shares of the Company (Note 5)
Tuspark Venture Investment Ltd. ("Tuspark Venture")	1 and 3	Beneficial owner	212,490,802	22.89%
Tus-Holdings Co., Ltd. ("Tus-Holdings")	1	Interested in controlled corporation	212,490,802	22.89%
Tsinghua Holdings Co., Ltd. ("Tsinghua Holdings")	2	Interested in controlled corporation	212,490,802	22.89%
Beijing Baijun Investment Company Limited ("Beijing Baijun")	2	Interested in controlled corporation	212,490,802	22.89%
Tsinghua University	2	Interested in controlled corporation	212,490,802	22.89%
Wang Jiwu	2	Interested in controlled corporation	212,490,802	22.89%
Ideal Team Ventures Limited ("Ideal Team")	4	Beneficial owner	69,004,524	7.43%

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY *(CONTINUED)*

Note:

1. Tuspark Venture is the beneficial owner of 212,490,802 Shares. The entire issued share capital of Tuspark Venture is beneficially owned by Tus-Holdings. Tus-Holdings is therefore deemed to be interested in the 212,490,802 Shares held by Tuspark Venture pursuant to the SFO.

2. Tus-Holdings is held (i) as to approximately 44.92% by Tsinghua Holdings, which is in turn held as to 100% by Tsinghua University; and (ii) as to approximately 30.08% by Beijing Baijun, which is in turn held as to 100% by Mr. Wang Jiwu.

3. The Company entered into a subscription agreement with certain subscribers (including Tuspark Venture) and the sole lead arranger on 1 March 2017, and pursuant to which, among others, Tuspark Venture conditionally agreed to subscribe for the convertible bond of the Company of HK$100.0 million with the initial conversion price of HK$0.9103 per share. Completion of the subscription is subject to the fulfillment or waiver of certain conditions precedent.

4. Ideal Team is beneficially interested in the convertible bonds in the principal amount of HK$61,000,000 which is convertible into a maximum of 69,004,542 shares at the initial conversion price of HK$0.884 per share.

5. The approximate percentage of shareholding is calculated based on 928,184,888 Shares in issue as at 31 December 2016.

Short positions in shares of the Company

So far as the Company is aware, no short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register required to be kept by the Company under section 336 of the SFO.

Short positions in underlying shares of the Company

So far as the Company is aware, no short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31 December 2016, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PERMITTED INDEMNITY OF DIRECTORS

Pursuant to the Articles of Association of the Company, every director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

REPORT OF THE DIRECTORS

DIRECTORS' MATERIAL INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save for certain Directors' interests in the Tuspark Global Subscription and the Ziguang Innovative Acquisition as set out in the sections headed "Material Acquisitions and Disposals – Subscription of shares in Tuspark Global" and "Material Acquisitions and Disposals – Acquisition of minority interest in Ziguang Innovative" to this report, respectively, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, Mr. Ma Chi Kong Karl is a director of Tus-Holdings and Mr. Du Peng is the vice president of Tus-Holdings and a director of Tuspark Venture. Tus-Holdings is principally engaged in technology services (incubator services and strategic investments), science park real estate (development and management of science parks) and other technology supporting businesses (such as hotel, education, financial services and media).

In addition, Ms. Cheung Joanna Wai Sze and Mr. Du Peng are directors of TGN Innovation Limited ("TGN"). TGN and its subsidiaries are principally engaged in the business of technology innovation incubator, and the business of shared workspace and services for and investments in small technology enterprises, in Hong Kong and the PRC. As at the date of this report, the Group owns approximately 28.57% of the issued share capital of TGN.

As such, Mr. Ma Chi Kong Karl, Ms. Cheung Joanna Wai Sze and Mr. Du Peng are considered to have interests in the business which competes or is likely to compete, either directly or indirectly, with the incubator related businesses of the Group pursuant to the Listing Rules.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Director an annual confirmation for independence pursuant to Rule 3.13 of the Listing Rules. The independent non-executive Directors have confirmed that they are independent.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

AUDITORS

In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited which has been appointed as the auditors of the Company by the shareholders at the annual general meeting held on 18 June 2012.

There were no changes in auditors of the Company in any of the preceding three years.

HLB Hodgson Impey Cheng Limited will retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them as auditors of the Company.

On behalf of the Board

Ma Chi Kong Karl
Chairman

Hong Kong, 30 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of maintaining high standards of corporate governance to the sustainable development of the Group. The Company has adopted the Corporate Governance Code (the "Corporate Governance Code") set out in the Appendix 14 to the Listing Rules. During the year under review, the Company has complied with all of the code provisions of the Corporate Governance Code, except for the following:

Code Provision E.1.2

Code Provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting of the Company (the "AGM") and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the AGM.

Mr. Li Feng, the former chairman of the Board who retired upon conclusion of the AGM on 20 June 2016, was unable to attend the AGM for 2016 due to other business engagement. However, an executive Director had chaired the AGM for 2016 and answered questions from the shareholders of the Company.

The AGM provides a channel for communication between the Board and the shareholders of the Company. Other than the AGM, the shareholders may communicate with the Company through the contact information as set out in this report.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year under review, the Company has adopted the model code set out in the Appendix 10 of the Listing Rules for securities transactions by Directors. The Company, having made specific enquiry of all Directors, confirmed that they have complied with the required standard set out in the adopted code regarding their securities transactions during 2016.

BOARD OF DIRECTORS

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith. The management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

As at the date of this report, the Board comprises 12 Directors, including 6 executive Directors, 2 non-executive Directors and 4 independent non-executive Directors, in compliance with the requirement of Listing Rules which states that "every board of directors of an issuer must include at least 3 independent non-executive directors which represent at least one-third of the board".

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

The Directors during the financial year and up to the date of this report were:

Executive Directors

Mr. Ma Chi Kong Karl (Appointed as Chairman of the Board and executive Director on 15 July 2016)
Mr. Shen Xiao (Appointed as President of the Company and executive Director on 21 June 2016)
Mr. Yang Ming (Appointed as Chief Operating Officer of the Company and executive Director on 21 June 2016)
Mr. Du Peng
Mr. Woo Kar Tung Raymond
Ms. Cheung Joanna Wai Sze
Mr. Li Feng (Retired as Director upon conclusion of the AGM on 20 June 2016)
Mr. Lam Wai Hung (Resigned on 15 July 2016)

Non-executive Directors

Mr. Tsang Ling Biu, Gilbert
Mr. Sheng Ruzhi

Independent non-executive Directors

Mr. Chen Jin
Mr. Poon Chiu Kwok
Mr. Wong Yuk Lun, Alan
Hon. Quat Elizabeth *(JP)* (Appointed on 6 January 2017)
Hon. Shek Lai Him Abraham *(GBS, JP)* (Resigned on 6 January 2017)

Brief biographies of each of the Directors are set out on pages 16 to 19 of this report and also made available on the Company's website.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;

- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;

- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to interim and annual reports of the Company, announcements published according to the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

- whilst executive Directors/chief executives of the Company, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and

- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives of the Company to ensure appropriate arrangements are in place.

Experience

Executive and non-executive Directors possess administrative leadership, diversified expertise and extensive industrial management experience. Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Poon Chiu Kwok. During its decision-making process, the Board holds in high regard the views of the independent non-executive Directors, which serve as the effective direction of the Group's operations.

Chairman and Chief Executive Officer

Under Code Provision A.2.1, the role of both the chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Ma Chi Kong Karl, has been appointed as the chairman of the Company (the "Chairman") on 15 July 2016 while Mr. Li Feng has retired from office as the Chairman and executive Director on 20 June 2016.

In addition, after the resignation of Mr. Xing Zhanwu as executive Director and chief executive officer of the Company (the "CEO") on 2 June 2015, no individual was formally appointed as CEO to fill his vacancy.

The role of the CEO has been performed collectively by all executive Directors with the leadership of Mr. Shen Xiao, the president of the Company. The Board considers this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of the shareholders of the Company as a whole.

Appointment, Re-election and Removal of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company with specific term and is subject to retirement and re-election at the forthcoming general meeting of the Company after his/her appointment and will also be subject to the retirement by rotation and re-election in accordance with the articles of association of the Company and the Corporate Governance Code.

BOARD OF DIRECTORS *(CONTINUED)*

Non-Executive Directors

The Company has complied with the requirement to appoint a sufficient number of independent non-executive Directors as set out in Rule 3.10(1) of the Listing Rules. Throughout the year ended 31 December 2016, the Company has appointed four independent non-executive Directors, namely Hon. Shek Lai Him Abraham *(GBS, JP)* ("Hon. Shek"), Mr. Chen Jin, Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan. Hon. Shek has resigned and Hon. Elizabeth Quat *(JP)* has been appointed as independent non-executive Director, both with effect from 6 January 2017.

Mr. Tsang Ling Biu, Gilbert, and Mr. Sheng Ruzhi, being the non-executive Directors and Hon. Elizabeth Quat (JP), Mr. Chen Jin, Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan, being the independent non-executive Directors, are all appointed for a fixed term of three years. All the non-executive Directors and independent non-executive Directors are subject to normal retirement and re-election by shareholders of the Company pursuant to the articles of association of the Company at the annual general meeting of the Company.

The Company has received annual confirmation of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Directors' and Officers' Insurance

The Company has arranged for appropriate liability insurance for the Directors to cover their liabilities arising out of corporate activities.

Corporate Governance Function

The Board is responsible for the corporate governance functions, which include the following duties:

(a) To develop and review the Company's policies and practices on corporate governance;

(b) To review and monitor the training and continuous professional development of Directors and senior management;

(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct applicable to employees and Directors; and

(e) To review the Company's compliance with the Code and disclosure in the Corporate Governance Report. The Board has discharged the above functions during the year under review.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Attendance of Meeting(s)

The Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the non-executive Directors, including independent non-executive Directors, are actively sought by the Company if they are unable to attend the meeting in person.

Members of the Board, who are well-informed of their duties and responsibilities, held a total of 13 meetings in 2016. The Directors are given sufficient time to review documents and information relating to matters to be discussed in board meetings in advance.

Proposals considered and approved by the Board during the year under review mainly included:

- financial performance and results of each period as well as review of corporate governance measures;
- a proposal to seek approval from shareholders in a general meeting for re-election and re-appointment of Directors;
- a proposal to seek approval from shareholders in a general meeting for re-appointment the Company's auditors and fixing their remuneration;
- a proposal to seek approval from shareholders in a general meeting for the general mandate in respect of the issuance of new shares and repurchases of shares;
- appointment and resignation of members of the Board; and
- other material disposals and acquisitions and capital expenditure.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Attendance of Meeting(s) *(Continued)*

Details of Directors' attendance at board meetings, committee meetings and general meetings held in 2016 are set out as follows:

	Attendance				
	General Meetings	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Ma Chi Kong Karl (Appointed as Chairman of the Board and executive Director on 15 July 2016)	1/1	5/6	N/A	2/2	N/A
Mr. Shen Xiao (Appointed as President of the Company and executive Director on 21 June 2016)	1/1	7/7	N/A	N/A	N/A
Mr. Yang Ming (Appointed as Chief Operating Officer of the Company and executive Director on 21 June 2016)	1/1	7/7	N/A	2/2	N/A
Mr. Du Peng	3/3	13/13	N/A	N/A	N/A
Mr. Woo Kar Tung Raymond	3/3	13/13	N/A	4/4	3/3
Ms. Cheung Joanna Wai Sze	12/13	12/13	N/A	N/A	N/A
Mr. Li Feng (Retired as director upon conclusion of the AGM on 20 June 2016)	0/1	0/6	N/A	N/A	N/A
Mr. Lam Wai Hung (Resigned on 15 July 2016)	2/2	5/6	N/A	N/A	N/A
Non-executive Directors					
Mr. Tsang Ling Biu, Gilbert	3/3	13/13	4/5	N/A	N/A
Mr. Sheng Ruzhi	2/3	11/13	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Chen Jin	2/3	12/13	4/5	4/5	2/3
Mr. Poon Chiu Kwok	2/3	13/13	5/5	6/6	3/3
Mr. Wong Yuk Lun, Alan	2/3	13/13	5/5	6/6	3/3
Hon. Quat Elizabeth *(JP)* (Appointed on 6 January 2017)	N/A	N/A	N/A	N/A	N/A
Hon. Shek Lai Him Abraham *(GBS, JP)* (Resigned on 6 January 2017)	3/3	13/13	N/A	N/A	N/A

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Training, Induction and Continuing Development of Directors

Each Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so that he/she has appropriate understanding of the businesses and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

During the year under review, the Directors participated in the following trainings:–

	Category of continuing professional development
Executive Directors	
Mr. Ma Chi Kong Karl (Appointed as Chairman of the Board and executive Director on 15 July 2016)	B
Mr. Shen Xiao (Appointed as President of the Company and executive Director on 21 June 2016)	B
Mr. Yang Ming (Appointed as Chief Operating Officer of the Company and executive Director on 21 June 2016)	B
Mr. Du Peng	A,B
Mr. Woo Kar Tung Raymond	A,B
Ms. Cheung Joanna Wai Sze	B
Mr. Li Feng (Retired as Director upon conclusion of the AGM on 20 June 2016)	B
Mr. Lam Wai Hung (Resigned on 15 July 2016)	B
Non-executive Directors	
Mr. Tsang Ling Biu, Gilbert	A,B
Mr. Sheng Ruzhi	B

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Training, Induction and Continuing Development of Directors *(Continued)*

	Category of continuing professional development
Independent non-executive Directors	
Mr. Chen Jin	A,B
Mr. Poon Chiu Kwok	A,B
Mr. Wong Yuk Lun, Alan	B
Hon. Quat Elizabeth *(JP)* (Appointed on 6 January 2017)	B
Hon. Shek Lai Him Abraham *(GBS, JP)* (Resigned on 6 January 2017)	A,B

A: attending seminars and/or forums relating to directors' duties or other relevant topics

B: reading newspaper, journals and updates relating to economy, general business or directors' duties etc

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules, which can be obtained on the website of the Company and the Stock Exchange.

The primary duties of the Audit Committee are to review and to provide supervision over the financial reporting process, internal control and risk management systems of the Group. During the year under review, the Audit Committee had reviewed the interim results and final results of the Group. The Audit Committee had reviewed this report and confirmed that it complies with the applicable standards, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors of the Audit Committee regarding the selection and appointment of external auditors.

The Audit Committee currently comprises a non-executive Director and four independent non-executive Directors:

Mr. Poon Chiu Kwok *(Chairman of Audit Committee)*
Mr. Tsang Ling Biu, Gilbert
Hon. Quat Elizabeth *(JP)*
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

On 6 January 2017, Hon. Quat Elizabeth *(JP)* has been appointed as a member of the Audit Committee.

During the year under review, the Audit Committee held five meetings. The attendance and records are set out under the section headed "Attendance of Meeting(s)" as above.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") in November 2005. The terms of reference of the Remuneration Committee can be obtained on the website of the Company and the Stock Exchange.

The primary duties of the Remuneration Committee are to assist the Board and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

The Remuneration Committee currently comprises two executive Directors and four independent non-executive Directors:

Mr. Poon Chiu Kwok *(Chairman of Remuneration Committee)*
Mr. Ma Chi Kong Karl
Mr. Yang Ming
Hon. Quat Elizabeth *(JP)*
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

The changes in the composition of the Remuneration Committee for the year ended 31 December 2016, and from the beginning of 2017 to the date of this report are set out below:

- On 25 August 2016, Mr. Ma Chi Kong Karl and Mr. Yang Ming have been appointed as members of the Remuneration Committee and Mr. Woo Kar Tung Raymond ceased to be a member of the Remuneration Committee; and

- On 6 January 2017, Hon. Quat Elizabeth (JP) has been appointed as a member of the Remuneration Committee.

During the year under review, the Remuneration Committee held six meetings. In the meetings, the Remuneration Committee had reviewed the remuneration policy of the Company and packages for the Directors and senior management. The attendance and records are set out under the section headed "Attendance of Meeting(s)" as above.

REMUNERATION COMMITTEE *(CONTINUED)*

The main aims of the Company's remuneration policy are:

- to ensure that none of the Directors or any of their associates should determine their own remuneration;
- the remuneration should be broadly aligned with companies of which the Company competes for human resources;
- the Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst taking into account individual performance and should avoid paying more than necessary for such purpose; and
- the remuneration should reflect the performance, complexity of duties and responsibility of the individual.

The remuneration payable to members of senior management is within the following band:

	Number of individuals
HK$ Nil – HK$1,000,000	5
HK$1,000,001 – HK$1,500,000	1

Further details of the Directors' and senior management remuneration are set out in notes 14 and 15 of the consolidated financial statements in this report.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") in November 2005. The terms of reference of the Nomination Committee can be obtained on the website of the Company and the Stock Exchange.

The Nomination Committee concerns the diversity of Board composition which aims to maintain the Board with a diversity of Directors in terms of skills, experience, knowledge, expertise, culture, independence, age, gender, and other qualities of the members of the Board with a view to enhancing the quality of performance of the Board. The primary duties of the Nomination Committee are to assist the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. Hon. Elizabeth Quat (JP) has been appointed as independent non-executive Director on 7 January 2017 and this arrangement further increases gender diversity of the Board.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(CONTINUED)*

The Nomination Committee currently comprises two executive Directors and four independent non-executive Directors:

Mr. Ma Chi Kong Karl *(Chairman of the Nomination Committee)*
Mr. Shen Xiao
Hon. Quat Elizabeth *(JP)*
Mr. Poon Chiu Kwok
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

The changes in the composition of the Nomination Committee for the year ended 31 December 2016 and from the beginning of 2017 to the date of this report are set out below:

- On 25 August 2016, Mr. Ma Chi Kong Karl has been appointed as a member and also chairman of the Nomination Committee. Mr. Shen Xiao has been appointed as a member of the Nomination Committee. Mr. Chen Jin ceased to be the chairman of the Nomination Committee but remained as a member of the committee. Mr. Woo Kar Tung Raymond ceased to be a member of the Nomination Committee.

- On 6 January 2017, Hon. Quat Elizabeth (JP) has been appointed as a member of the Nomination Committee.

During the year under review, the Nomination Committee held three meetings. In the meetings, the Nomination Committee had reviewed the structure size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company. The attendance and records are set out under the section headed "Attendance of Meeting(s)" as above.

COMPANY SECRETARY

Mr. Lau Chi Yuen, the company secretary of the Company, has confirmed the completion of relevant professional training of not less than 15 hours.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

Directors' Responsibility for Financial Reporting

With the assistance of the finance department of the Company, the Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2016 and confirm that the financial statements contained herein give a true and fair view of the results and state of affairs of the Group for the year under review. The Directors consider that the financial statements have been prepared in conformity with the statutory requirements including the Hong Kong Companies Ordinances and the Listing Rules and the applicable accounting standards including the International Financial Reporting Standards, Hong Kong Financial Reporting Standards. These statutory requirements and applicable accounting standards have been consistently used and applied and reasonable judgements and estimates are properly made. The Board aims to present a clear and balanced assessments of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. During the year of 2016, the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The work scope and responsibilities of HLB Hodgson Impey Cheng Limited ("HLB"), the external auditors of the Company, are stated in the section entitled "Independent Auditors' Report".

External Auditors' Remuneration

During the year under review, the Group has engaged HLB (including any entity that is under common control, ownership or management with HLB or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of HLB nationally or internationally) to provide the following services and their respective fees charged are set out as below:–

Type of services provided	Amount of fees (HKD)
Audit services	900,000
Non-audit services	–
Total	900,000

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

Given the Group's current simple operating structure, as opposed to a separate internal audit department, the Board is directly responsible for internal control of the Group and for reviewing its effectiveness. The Group will continue to review regularly on whether there is a need for engaging an external independent internal auditing expert.

The Board has conducted a review on the internal control system of the Group which has covered major and material controls in areas of financial, operations, compliance and risk management of the Company and will improve the internal control manual and system in accordance to the Company's business condition. It has the responsibility to maintain an effective internal control system in order to safeguard the Group's assets and shareholders' interests. The Audit Committee and the Board also review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage it risks across business operations.

The Group has established the risk management framework, which consists of the Board, the Audit Committee and the risk management taskforce senior management. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted the risk management policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the senior management of the Company identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritises the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board and the Audit Committee in an ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board had performed an annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems are effective.

RISK MANAGEMENT AND INTERNAL CONTROL *(CONTINUED)*

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Group complies with requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the "Safe Harbours" as provided for in the SFO. Before the information is disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose such information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

Communications with Shareholders and Investors

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders and investors. Information of the Company is disseminated to the shareholders in the following manner:

- delivery of the interim and annual results and reports to all shareholders;

- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Company maintains effective communications with its shareholders, investors and analysts through, inter alia:

- establishing dedicated personnel for liaison with investors and analysts by answering their questions;

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS *(CONTINUED)*

Communications with Shareholders and Investors *(Continued)*

- gathering, in a timely manner, opinions and comments from analysts and investors on the operations of the Company, compiling reports thereon at regular intervals and selectively adopting them in the Company's operations;

- making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials and press releases of the Company, etc.; and

- actively communicating with various parties, participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

Constitutional Documents

During the year under review, there was no change in Company's constitutional document.

Procedures for Shareholders to Convene an Extraordinary General Meeting

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Enquires to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Room 1301, Prosperity Tower,
39 Queen's Road Central,
Hong Kong
Email: info@tus-i.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this report in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") contained in Appendix 27 and the requirements set out in Rule 13.91 of the Listing Rules. The report describes the Company's policies that were designed to fulfill the Company's obligations with respect to sustainable development and social responsibilities areas, as required by the ESG Guide. This report covers the operational information, which includes data and activities of the Group's head offices in Hong Kong and the PRC, and its reporting period is for the financial year 2016. In respect of the corporate governance practices of the Company, please refer to the "Corporate Governance Report" section of this annual report.

A. ENVIRONMENTAL PROTECTION

To demonstrate the Company's commitment to sustainable development and compliance with laws and regulations relating to environmental protection, we endeavor to minimize the environmental impact of our business activities and maintain green operations and green office practices.

A.1 Emissions

The Company is governed by, and has complied with, the Law of Environmental Protection of the People's Republic of China. Its operation does not generate significant air emissions or hazardous waste. Limited workplace effluents and wastes are attributed to the operation of the Company's offices. All workplace effluents are discharged into the municipal sewer systems for collective treatment in accordance with the "Effluent Water Quality Standards for the Urban Sewage System" and workplace wastes are treated by the property management companies maintaining the Company's offices. Our greenhouse gases emissions are indirectly, principally resulting from electricity consumed at the Company's workplace as well as from business travel by employees. In 2016, the Group was not involved into any confirmed violations or any appeals that were relevant to the environmental protection and had significant influence on the Company.

A.2 Use of Resources

The resources used by the Company are principally attributed to electricity, water and paper consumed at its offices in its daily operation. With the aim to better manage its use of resources, regular assessments of use of resources are performed. The Company has adopted green office practices to reduce natural consumption and the impact on the environment. Relevant departments collect and analyse data and summarise their respective findings on a regular basis.

Energy Management

Energy saving practices are developed to address relevant departments' findings as mentioned above. Our staff have to comply with the energy conservation policy of switching off lights, air-conditioning system, computers, workstations including monitors and other electronic devices after work. Other features have also been adopted to meet best practice standards for environmental protection, which include the use of high-efficiency electrical equipment and electrical filter tap in order to respectively reduce electricity consumption and the use of bottled water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL PROTECTION *(CONTINUED)*

A.2 Use of Resources *(Continued)*

Paper Reduction

We adopt measures to save paper, such as applying the blank side of used paper for drafting, re-using envelopes, circulating electronic format rather than hard copies of daily press, etc.

Other Measures

The Group recognises the importance of adopting green purchasing to protect natural resources, so the office orders refillable ball pens for daily work. We also set up a recyclable collection point to encourage staff to have the concept of "Clean Recycling". With the aim of reducing consumable goods, we replaced the disposable paper cups with glass cup for our guests. By implementing these measures, the office decreased the waste generation in operation, and we promote the culture of green living, and cultivate the public awareness on environmental protection.

A.3 Environment and Natural Resources

Due to the nature of its businesses, the Group does not have significant impact on the environment and natural resources. With the policies and measures implemented to minimise the Group's impact on the environment as disclosed under "A.1 Emission" and "A.2 Use of Resources" above, the Board believes the Group has and will continue to minimise its impact on the environment.

B. SOCIAL COMMITMENT

The Company believes that employees are our most valuable asset and the fundamental prerequisite for achieving sustainable development of the Group. With the aim of ensuring employee satisfaction, the Company provides competitive employee benefits and comprehensive training programs to encourage employees to achieve their potential and put their abilities to good use. Moreover, the Company provides for a number of staff activities to enhance employees' sense of belonging and to help create a friendly and harmonious working environment.

B.1 Employment and Labour Practices

The Group creates a harmonious working environment and provides a diversified career development platform for employees, in order to achieve the common growth of enterprises and employees. The Group strictly complies with national and local labor laws and regulations, such as the Employment Ordinance of Hong Kong and Labor Law of the People's Republic of China. We established a recruitment and selection process and explained each key step of the recruitment process, so that the use of child and forced labor has been avoided.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT *(CONTINUED)*

B.1 Employment and Labour Practices *(Continued)*

Remuneration is determined on the basis of qualifications, experience, responsibilities and performance. Apart from basic remuneration, staff benefits also include medical insurance and retirement benefit. A comprehensive benefits package is provided to all eligible staff. The Company also maintains a holiday policy, which provides employees paid days off from work for national public holidays and company holidays, as well as annual vacation leave, compassionate leave, marriage leave, maternity leave, personal leave and sick leave. To achieve sustainable growth with our staff, we implement the policy of promotion from within whenever possible on recruitment and promotion. We prefer to recognise and develop the abilities of our staff within the Group rather than fill skilled and responsible positions from outside.

In terms of internal communication, effective two-way communications between the general staff and management is encouraged. Employees maintain timely and smooth communication with the management, colleagues and partners within the Group through emails and physical meetings. The interactive communication benefits the Group's decision-making process and also enhances employee satisfaction.

B.2 Health and Safety

Work safety is the foundation and security for the sustainable development of an enterprise. A comprehensive occupational health and safety management system is vital for enhancing safety performance. The Group strictly complies with local labor laws and regulations related to occupational safety and health ordinance, such as the Occupational Safety and Health Ordinance of Hong Kong and Code of Occupational Disease Prevention of the People's Republic of China. Employees are asked to stringently abide by all safety rules and regulations, and utilize available and applicable protection measures at all times to avoid accidents and protect themselves and coworkers from safety risks in accordance with the relevant laws and regulations. The Group carries out the cleaning of office area and safety inspection at regular intervals with an aim to maintain a clean, tidy and safe working environment.

The Company offers its employees comprehensive health care coverage and also provides non-medical insurance coverage and child benefits. The Company also encourage employees to have more involvement in workout programs to improve physical fitness.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT *(CONTINUED)*

B.3 Development and Training

The Group encourages every employee to achieve growing up along with the Group's business expansion.

We ensure our staff have proper channels to communicate with our management through annual performance review on their strengths and needs. Each staff will set up a short-term development target for the coming year according to their interest and potential. We encourage our staff to share their knowledge to the colleague by organizing self-initiated sharing sessions or through weekly meetings.

We also sponsor our staff to attend external trainings or seminars. To ensure the constant improvement of team quality, we increase external training opportunities for employees, and keep evaluating and modifying the internal training system, so as to support business operations and employee needs.

B.4 Labour Standards

The Group's recruitment management system measures clearly on the staff's age requirement. Review and verification of applicant's identity information is required during the recruitment process, and recruitment of child labor is strictly prohibited. Applicant is also required to provide document proofs of academic qualifications and working experience for verifications, applicant who is suspected to have false academic qualifications and working experience will not be employed. The Group provides its staff with a safe, health, comfortable working environment with labor protection, reasonable remuneration and various welfare. The Group enters employment contract with each of its employees in accordance with relevant laws and regulations in the PRC and Hong Kong, and has strictly complied with such laws relating to preventing child and forced labour.

B.5 Supply Chain Management

The Group values the partnership with suppliers and works together to promote sustainable development of the industry. We encourage suppliers to maintain a high standard on business ethics and conducts, with satisfactory environmental and social performance. During the selection and evaluation processes, we adopt a fair basis with defined assessment criteria to ensure that only qualified suppliers are engaged with no conflict of interest.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT *(CONTINUED)*

B.6 Product Responsibility

The Group aims to achieve the highest possible standard with all the services provided.

The Group pays high attention to the quality and safety of services. The Group set up relevant quality and safety inspection policies for different type of services, communicates and confirms the working plan with customers before the project starts and actively coordinate the process of the project with customers. In 2016, the Group have not had any complaints or request to terminate projects due to poor quality and safety. If a complaint should arise, the Company will immediately assess the complaint and conduct an internal investigation into the matter to identify the source of the issue. The Group has close connection with customers. If the customers do not satisfy the quality and the safety of the services, the Group arranges sufficient channels and staffs for customers to communicate and provide the solutions to the problems as soon as possible.

The Group's legal department also reviews operational contracts with significance changes to ensure that the contracts safeguard the rights of each other. All confidential data of customers can only be assessed by the staffs who are responsible for that client. The Group strictly complies with the relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to services provided and methods of redress.

B.7 Anti-Corruption, Bribery, Extortion, Fraud and Money Laundering

The Company maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery in any form. We encourage the reporting of suspected business irregularities and provide clear channels specifically for this purpose. When suspected wrongdoings are identified, such as breach of duty, abuse of power, receiving bribes, staff should report for investigation and verification, and report to the regulator and/or to law enforcement authority when necessary.

B.8 Community Investment

The Group promotes its staff to join activities and contribute to the local communities in which the group companies operate. The Group educates and cultivates staff with a review to improve their social responsibility awareness, and actively encourages staff to volunteer their leisure hours to participate in functions for the improving of local communities and environment. The Group will try its best endeavors to increase investment in communities in order to build a better environment.

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF TUS INTERNATIONAL LIMITED
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of TUS International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 149, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountant (the "Code"), and we have fulfilled our ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on sale of automotive electronic products and safety spare parts business	
Refer to note 20 of the consolidated financial statement.	
The Group has intangible assets of HK$3,855,099 relating to sale of automotive electronic products and safety spare parts business as at 31 December 2016. Management performed impairment assessment of sale of automotive electronic products and safety spare parts business and concluded that an impairment loss of HK$12,956,676 was recognised. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation was obtained in order to support the management's estimates.	Our procedures in relation to the management's impairment assessment included: • Evaluating of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on available-for-sale financial assets	
Refer to note 24 of the consolidated financial statement.	
The Group has unlisted available-for-sale financial assets which is carried at cost less impairment of HK$209,000,000 represented approximately 36% of the Group's total assets and was significant to the Group's assets as at 31 December 2016. During the year, the management concluded that no impairment was recognised on the available-for-sale financial assets. This conclusion requires significant management judgement.	Our procedures in relation to management's impairment assessment on available-for-sale financial assets included: • Assessing the appropriateness of the methodologies used by management for the impairment assessment; • Discussing with management whether there was any objective evidence of impairment of each investment and challenging management's assertions and assessment; and • Reviewing the latest financial information and business performance of each investment. We found the management's conclusion to be consistent with the available information.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on other receivables Refer to note 26 of the consolidated financial statement. As at 31 December 2016, the Group has trade receivables, prepayments and other receivables of HK$115,566,761 which comprise of other receivables of HK$90,156,728. During the year ended 31 December 2016, the Group has provided impairment loss on other receivables for HK$4,047,749. The determination as to whether an other receivable is collectible involved high level of management's judgement. Specific factors management considered include the age of the balances, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties.	Our procedures in relation to management's impairment assessment on other receivables included: • Evaluating the management's impairment assessment included testing, on a sample basis, the underlying data used by management to assess the collectability of other receivables, such as an aged receivable analysis, payments from debtors; • Testing the key aged balances where no provision was recognised to check if there were any objective evidences of impairment. This included sample checking of payments received subsequent to the year end date and reviewing historical payment patterns; and • Assessing the overall provision for impairment, we also considered the consistency of management's application of policy for recognising provisions with the prior years. We consider the management's conclusion to be consistent with the available information.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 HK$	2015 HK$
Revenue	7	**216,801,681**	194,606,323
Cost of sales		**(197,239,387)**	(173,115,454)
Gross profit		**19,562,294**	21,490,869
Other revenue	8	**1,126,751**	4,995,292
Other gains and losses	9	**(16,906,428)**	(77,689,775)
Research and development expenses	10	**(2,193,905)**	(58,349,616)
Selling and distribution expenses		**(1,396,235)**	(16,668,024)
Administrative expenses		**(63,238,254)**	(76,068,981)
Finance costs	11	**(4,513,307)**	(1,600,366)
Realised gain on held-for-trading investments	12	**–**	8,380,249
Gain on disposal of subsidiaries	38	**26,996,996**	–
Gain on disposal of available-for-sale investments	24	**200,000**	–
Share of loss of an associate	23	**–**	(3,950,830)
Loss before taxation	12	**(40,362,088)**	(199,461,182)
Taxation	13	**2,564,082**	(1,851,358)
Loss for the year		**(37,798,006)**	(201,312,540)
Other comprehensive loss for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(714,973)**	(3,562,946)
Reclassification adjustment of exchange differences upon disposal of subsidiaries		**(11,582,867)**	–
Other comprehensive loss for the year		**(12,297,840)**	(3,562,946)
Total comprehensive loss for the year		**(50,095,846)**	(204,875,486)
Loss for the year attributable to:			
Owners of the Company		**(30,608,215)**	(144,698,559)
Non–controlling interests		**(7,189,791)**	(56,613,981)
		(37,798,006)	(201,312,540)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 HK$	2015 HK$
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(42,701,694)**	(147,495,454)
Non-controlling interests		**(7,394,152)**	(57,380,032)
		(50,095,846)	(204,875,486)
Loss per share			
– Basic and diluted (HK cents)	17	**(3.30)**	(17.18)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 HK$	2015 HK$
Non-current assets			
Fixed assets			
– Property, plant and equipment	18	**4,836,259**	31,172,985
– Interests in leasehold land held for own use under operating leases	18	**–**	9,665,342
Construction in progress	19	**–**	6,369,951
Finance lease receivables	27	**29,671,130**	4,797,860
Intangible assets	20	**3,855,099**	18,997,671
Goodwill	21	**3,380,099**	3,380,099
Interests in associates	23	**10,000,000**	–
Available-for-sale investments	24	**209,000,000**	78,500,000
		260,742,587	152,883,908
Current assets			
Inventories	25	**18,102,688**	56,563,591
Trade receivables, prepayments and other receivables	26	**115,566,761**	148,084,846
Finance lease receivables	27	**35,648,588**	18,085,823
Cash and cash equivalents	28	**143,781,827**	240,100,479
		313,099,864	462,834,739
Current liabilities			
Trade and other payables	29	**25,653,619**	46,449,377
Current tax payable	30	**801,035**	3,132,768
Borrowings	31	**9,667,984**	33,967,780
		36,122,638	83,549,925
Net current assets		**276,977,226**	379,284,814
Total assets less current liabilities		**537,719,813**	532,168,722

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 HK$	2015 HK$
Non-current liabilities			
Deferred tax liabilities	30	**11,202,942**	14,541,595
Convertible bond	32	**46,132,190**	–
		57,335,132	14,541,595
Net assets		**480,384,681**	517,627,127
Capital and reserves			
Share capital	35	**9,281,849**	9,281,849
Reserves	35	**517,662,384**	531,707,336
Equity attributable to owners of the Company		**526,944,233**	540,989,185
Non-controlling interests		**(46,559,552)**	(23,362,058)
Total equity		**480,384,681**	517,627,127

Approved and authorised for issue by the Board of Directors on 30 March 2017

Ma Chi Kong Karl
Chairman

Woo Kar Tung Raymond
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company										
	Share capital HK$	Share premium HK$	Statutory surplus reserve HK$	Exchange reserve HK$	Other reserve HK$	Share option reserve HK$	Convertible bond reserve HK$	Retained profits HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
As at 1 January 2015	7,368,209	335,428,960	7,893,657	19,802,084	(46,580,259)	–	–	204,876,196	528,788,847	(31,806,225)	496,982,622
Loss for the year	–	–	–	–	–	–	–	(144,698,559)	(144,698,559)	(56,613,981)	(201,312,540)
Other comprehensive loss for the year, net of income tax:											
Exchange differences on translation of financial statements of foreign operation	–	–	–	(2,796,895)	–	–	–	–	(2,796,895)	(766,051)	(3,562,946)
Total comprehensive loss for the year	–	–	–	(2,796,895)	–	–	–	(144,698,559)	(147,495,454)	(57,380,032)	(204,875,486)
Placing of ordinary shares (note 35(a)(i))	1,473,640	126,143,584	–	–	–	–	–	–	127,617,224	–	127,617,224
Transaction costs attributable to placing of ordinary shares	–	(3,345,835)	–	–	–	–	–	–	(3,345,835)	–	(3,345,835)
Acquisition of subsidiaries (note 36)	–	–	–	–	–	–	–	–	–	65,824,199	65,824,199
Share-based payments	–	–	–	–	–	19,584,403	–	–	19,584,403	–	19,584,403
Exercise of share options (note 35)	440,000	18,811,000	–	–	–	(3,411,000)	–	–	15,840,000	–	15,840,000
As at 31 December 2015 and 1 January 2016	9,281,849	477,037,709	7,893,657	17,005,189	(46,580,259)	16,173,403	–	60,177,637	540,989,185	(23,362,058)	517,627,127
Loss for the year	–	–	–	–	–	–	–	(30,608,215)	(30,608,215)	(7,189,791)	(37,798,006)
Other comprehensive loss for the year, net of income tax:											
Exchange differences on translation of financial statements of foreign operation	–	–	–	(510,612)	–	–	–	–	(510,612)	(204,361)	(714,973)
Reclassification adjustment of exchange differences upon disposal of subsidiaries	–	–	–	(11,582,867)	–	–	–	–	(11,582,867)	–	(11,582,867)
Total comprehensive loss for the year	–	–	–	(12,093,479)	–	–	–	(30,608,215)	(42,701,694)	(7,394,152)	(50,095,846)
Cancellation of share option	–	–	–	–	–	(16,173,403)	–	16,173,403	–	–	–
Disposal of subsidiaries (note 38)	–	–	(5,703,096)	–	(2,408,154)	–	–	8,111,250	–	(15,803,342)	(15,803,342)
Issuance of convertible bond (note 32)	–	–	–	–	–	–	18,043,301	–	18,043,301	–	18,043,301
Deferred taxation of convertible bond (note 30(b))	–	–	–	–	–	–	(2,977,144)	–	(2,977,144)	–	(2,977,144)
Share-based payments	–	–	–	–	–	13,590,585	–	–	13,590,585	–	13,590,585
As at 31 December 2016	**9,281,849**	**477,037,709**	**2,190,561**	**4,911,710**	**(48,988,413)**	**13,590,585**	**15,066,157**	**53,854,075**	**526,944,233**	**(46,559,552)**	**480,384,681**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$	2015 HK$
Operating activities			
Loss before taxation		**(40,362,088)**	(199,461,182)
Adjustments for:			
– Depreciation of property, plant and equipment		**1,900,941**	5,735,353
– Amortisation of intangible assets		**2,193,905**	4,520,776
– Amortisation of leasehold land held for own use under operating leases		**51,776**	1,118,938
– Finance costs		**4,513,307**	1,600,366
– Bank interest income		**(290,246)**	(20,420)
– Loan interest income		**–**	(3,973,917)
– Share of loss of an associate		**–**	3,950,830
– Loss on disposal of property, plant and equipment		**–**	4,059,977
– Gain on disposal of subsidiaries	38	**(26,996,996)**	–
– Realised gain on held-for-trading investments		**–**	(8,380,249)
– Provision for inventories		**–**	15,032,825
– Impairment loss recognised on other receivables		**4,047,749**	–
– Impairment loss recognised on intangible assets		**12,956,676**	19,237,409
– Impairment loss recognised on amount due from an associate	23	**6,006**	7,515,200
– Impairment loss recognised on investment in an associate		**–**	23,994,213
– Impairment loss recognised on goodwill		**–**	5,120,447
– Share-based payments		**13,590,585**	19,584,403
– Dividends income from held-for-trading investments		**–**	(286,000)
– Gain on disposal of available-for-sale investments		**(200,000)**	–
Operating loss before changes in working capital		**(28,588,385)**	(100,651,031)
Increase in inventories		**(26,115,858)**	(45,548,401)
Decrease in trade receivables, prepayments and other receivables		**11,251,925**	220,017,557
(Increase)/decrease in finance lease receivables		**(42,436,035)**	1,172,310
Increase/(decrease) in trade and other payables		**35,163,705**	(17,015,666)
Proceeds from disposal of held-for-trading investments		**–**	28,002,749
Cash (used in)/generated from operations		**(50,724,648)**	85,977,518
Income tax paid		**(3,805,013)**	(327,877)
Net cash (used in)/generated from operating activities		**(54,529,661)**	85,649,641
Investing activities			
Purchase of property, plant and equipment		**(4,592,440)**	(5,174,399)
Payment for construction in progress		**(1,234,568)**	(6,590,147)
Proceeds from disposal of property, plant and equipment		**–**	508,938
Repayment of loan receivables		**–**	33,000,000
Net cash inflow on disposal of subsidiaries	38	**9,976,873**	–
Bank interest received		**290,246**	20,420
Loan interest received		**–**	612,602
Purchase of available-for-sale investments	24	**(20,000,000)**	(64,500,000)
Net cash outflow on acquisition of subsidiaries		**–**	(55,198,491)
Net cash outflow on acquisition of assets		**–**	(2,124,540)
Dividends received from held-for-trading investments		**–**	286,000
Net cash used in investing activities		**(15,559,889)**	(99,159,617)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$	2015 HK$
Financing activities			
Proceeds from bank loans		–	10,143,198
Repayment of bank loans		**(16,829,268)**	(17,526,334)
Proceeds from other loans		**6,604,520**	17,500,000
Repayment of other loans		**(14,436,536)**	–
Proceeds from placing of ordinary shares		–	127,617,224
Payment for transaction costs attributable to placing of ordinary shares		–	(3,345,835)
Finance costs paid		**(1,337,816)**	(1,600,366)
Proceeds from shares issued under share option scheme		–	15,840,000
Net cash (used in)/generated from financing activities		**(25,999,100)**	148,627,887
Net (decrease)/increase in cash and cash equivalents		**(96,088,650)**	135,117,911
Effect of foreign exchange rate changes		**(230,002)**	(360,981)
Cash and cash equivalents as at 1 January		**240,100,479**	105,343,549
Cash and cash equivalents as at 31 December		**143,781,827**	240,100,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

TUS International Limited (the "Company") was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2004. On 12 November 2008, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of transfer on the Main Board of the Stock Exchange.

The consolidated financial statements of the Company and the subsidiaries (collectively the "Group") are presented in Hong Kong dollars ("HK$") except when otherwise indicated.

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

In the current year, the Group has applied, for the first time, the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to 2012-2014 Cycle

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but not yet effective:

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts[2]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted

2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted

4 Effective for annual periods beginning on or after a date to be determined

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

The directors of the Company do not anticipate that the application of these new and revised HKFRSs will have a material effect on the amounts recognised in the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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

HKFRS 9 Financial Instruments *(Continued)*

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- all recognised financial assets that are within the scope of HKAS 39 Financial Instruments Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Application of HKFRS 9 in future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 Financial Instruments *(Continued)*

The change in fair value of the Group's convertible bond designated at fair value through profit or loss that is attributable to changes in credit risk could be presented in other comprehensive income. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contracts with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKAS 7 Disclosure Initiative

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (the "Interpretations") issued by the HKICPA and accounting principles generally accepted in Hong Kong, in addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of preparation of the consolidated financial statements *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out belows.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation *(Continued)*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as speci fied/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(d) Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combinations *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

(e) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Goodwill *(Continued)*

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

(f) Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment or a portion thereof, is classified as held for sales, in which case it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Investment in associates *(Continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sales. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such change in ownership interests.

When the Group reduces its ownership interest in an associate or joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(g) Property, plant and equipment

Property, plant and equipment, including buildings, leasehold land (classified as finance leases) and freehold land held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.

–	Machinery and equipment	3-10 years
–	Motor vehicles	10 years
–	Office equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents buildings under construction and equipment pending installation, and is stated at cost less any recognised impairment losses. Costs include professional fees and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(i) Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting periods, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Intangible assets (other than goodwill) *(Continued)*

Internally-generated intangible asset – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during the development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets there are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Intangible assets (other than goodwill) *(Continued)*

Derecognition of intangible assets (Continued)

Amortisation of capitalised development cost is charged to profit or loss over the estimated life cycle (not more than 5 years) of the relevant products. Amortisation of other intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives as follow:

–	Patents	10-18 years

Both the period and method of amortisation are reviewed annually.

(j) Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful fives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (include any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Leasing *(Continued)*

Leasehold land for own use (Continued)

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "interest in leasehold land held for own use under operating lease" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and other costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade receivables and other receivables

Trade receivables and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Bills discounted with recourse are not derecognised from the statement of financial position until actual settlement on maturity, and the related advances from banks in respect of discounted bills are classified as secured bank loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share options reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(r) Taxation *(Continued)*

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(u) Current assets and liabilities

Current assets are expected to be realised within twelve months of the end of the reporting period or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the end of the reporting period or in the normal course of the Group's operating cycle.

(v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(w) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables, available-for-sale financial assets and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established b regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL represent investments held-for-trading.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other revenue".

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, or (b) financial assets at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets *(Continued)*

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, prepayment and other receivables, finance lease receivables, and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held-for-trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held-for-trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held-for-trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in the other loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities at amortised cost

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

Convertible bonds

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bond is converted or redeemed.

If the convertible bond is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the convertible bond is redeemed, the convertible bonds reserve is released directly to retained profits.

When the convertible bond is extinguished before maturity through an early redemption or repurchase where the original conversion privileges are unchanged, the consideration paid and any transaction costs for the redemption or repurchase are allocated to the liability component and equity component using the same allocation basis as when the convertible bond was originally issued. Once the allocation of consideration and transaction costs is made, any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to equity component is recognised in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(i) Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Revenue recognition *(Continued)*

(ii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(iii) Interest income

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

(iv) Finance lease income

Finance lease income is recognised over the period of lease (see accounting policy in respect of leasing above).

(v) Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(y) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(y) Foreign currencies *(Continued)*

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(z) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(aa) Related parties transactions

A party is considered to be related to the Group if:

(a) A person or entity that is preparing the consolidated financial statements of the Group:

(b) A person or a close member of that person's family, is related to the Group, if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(c) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) the entity and the Group are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(aa) Related parties transactions *(Continued)*

(c) An entity is related to the Group if any of the following conditions applies: *(Continued)*

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The methods, estimates and judgments the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgments, on matters that are inherently uncertain. Notes 5 and 21 contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation and amortisation

Property, plant and equipment and intangible assets except for development costs (see notes 18 and 20) are depreciated and amortised on a straight-line basis over their estimated useful lives. The Group annually reviews the useful life of an asset and its residual value, if any. The useful life is based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at the end of each reporting period and assess the need for write down of inventories.

(c) Allowance for impairment of doubtful debts

Allowance for impairment of doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the allowance for impairment of doubtful debts would affect profit or loss in future years.

(d) Impairment losses for property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are assessed at the end of each reporting period to identify indications that they may be impaired. If any such indication exists, the recoverable amount of the property, plant and equipment and intangible assets (including goodwill) is estimated. The recoverable amount of the property, plant and equipment and intangible assets is based on value-in-use calculations. These calculations are determined based on cash flow projections with reasonable assumptions that represent management's best estimate of the range of economic conditions over the remaining useful life of the assets. Changes in facts and circumstances may result in revisions to whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(e) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are transactions during the ordinary course of business, for which calculations of the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management consider it is probable that future taxable profits will be available adjust which the temporary differences can be utilised. When the expectation is different from the original estimate such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(f) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3 to the consolidated financial statements. The recoverable amounts of CGUs are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(g) Impairment losses of associate

In considering the impairment losses that may be required for the Group's associate, recoverable amount of the associate needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value-in-use. It is difficult to precisely estimate selling price because quoted market prices for the associate may not be readily available. In determining the value-in-use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, loan receivables, available-for-sale investments, finance lease receivables, cash and cash equivalents, trade and other payables, borrowings and convertible bond. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

	2016 HK$	2015 HK$
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**234,102,142**	368,079,467
Available-for-sale investments	**209,000,000**	78,500,000
Finance lease receivables	**65,319,718**	22,883,683
	508,421,860	469,463,150
Financial liabilities		
Amortised costs	**81,453,793**	80,417,157

Financial risk factors

The Group is exposed to a variety of financial risks: credit, liquidity, currency and interest rate risks arise in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables, bills receivable, other receivables and finance lease receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group generally grants a credit period of not more than 90 to 180 days from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request. Debtors with balances that are more than 12 months overdue are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the end of the reporting period, the Group has a certain level of concentrations of credit risk as 0% (2015: 0%) and 0% (2015: 63%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In relation to the other receivables, the Group reviews the receivable amount of each long-aged other receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

The Group does not provide any guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables, bills receivable and finance lease receivables are set out in notes 26 and 27 to the consolidated financial statements respectively.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates currently at the end of the reporting period) and the earliest date of the Group can be required to pay:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(b) Liquidity risk *(Continued)*

As at 31 December 2016

	Weighted average effective interest rate %	On demand or less than 1 year HK$	Over 1 year HK$	Total undiscounted cash flows HK$	Carrying amount HK$
Non-derivative financial liabilities					
Trade and other payables	–	25,653,619	–	25,653,619	25,653,619
Borrowings	8.00	10,111,873	–	10,111,873	9,667,984
Convertible bond	12.40	–	61,000,000	61,000,000	46,132,190
		35,765,492	61,000,000	96,765,492	81,453,793

As at 31 December 2015

	Weighted average effective interest rate %	On demand or less than 1 year HK$	Over 1 year HK$	Total undiscounted cash flows HK$	Carrying amount HK$
Non-derivative financial liabilities					
Trade and other payables	–	46,449,377	–	46,449,377	46,449,377
Borrowings	7.09	36,378,835	–	36,378,835	33,967,780
		82,828,212	–	82,828,212	80,417,157

(c) Currency risk

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiaries. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(d) Interest rate risk

(i) Exposure to interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to its interest-bearing bank loans. Borrowings at floating rates expose the Group to cash flow interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(ii) Sensitivity analysis

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$48,340 (2015: HK$169,858). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(e) Fair values

The fair values of financial assets and liabilities are determined as follows:

– the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

– the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

– the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(CONTINUED)*

(e) Fair values *(Continued)*

During the years ended 31 December 2016 and 2015, there were no transfers of fair value measurement between Level 1 and Level 2, and there were no transfers into or out of Level 3 for both financial assets and financial liabilities. There were no transfers between levels 1 and 2 in both years.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

	As at 31 December 2016	
	Carrying amount	**Fair value**
	HK$	**HK$**
Financial liabilities		
Convertible bond	**46,132,190**	**47,546,625**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group is principally engaged in production and sale of automotive related products, car trading and provision of financing service for leasing motor vehicles and equipment.

The three reportable segments of the Group under HKFRS 8 are as follows:

(a) Automotive electronic products and safety spare parts – sale of automotive electronic products and safety spare parts in the PRC

(b) Car trading – sale of premium cars in Hong Kong and sale of cars in the PRC

(c) Finance lease of motor vehicles and equipment – providing financing service for leasing motor vehicles and equipment in the PRC

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Automotive electronic products and safety spare parts HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2016				
Segment revenue	17,489,272	109,070,296	90,242,113	216,801,681
Segment results	4,632,750	4,875,476	4,020,875	13,529,101
Impairment loss recognised on amount due from an associate	(6,006)	–	–	(6,006)
Impairment loss recognised on other receivables	–	–	(4,047,749)	(4,047,749)
Impairment loss recognised on intangible assets	(12,956,676)	–	–	(12,956,676)
Gain on disposal of subsidiaries	26,996,996	–	–	26,996,996
Unallocated corporate expenses				(60,302,990)
Unallocated corporate income				938,543
Finance costs				(4,513,307)
Loss before taxation				(40,362,088)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(CONTINUED)*

	Automotive electronic products and safety spare parts HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2015				
Segment revenue	66,014,928	122,344,876	6,246,519	194,606,323
Segment results	(54,938,743)	1,219,485	192,487	(53,526,771)
Share of loss of an associate	(3,950,830)	–	–	(3,950,830)
Loss on disposal of property, plant and equipment	(4,059,977)	–	–	(4,059,977)
Impairment loss recognised on amount due from an associate	(7,515,200)	–	–	(7,515,200)
Impairment loss recognised on investment in an associate	(23,994,213)	–	–	(23,994,213)
Provision for inventories	(15,032,825)	–	–	(15,032,825)
Impairment loss recognised on intangible assets	(19,237,409)	–	–	(19,237,409)
Impairment loss recognised on goodwill	(5,120,447)	–	–	(5,120,447)
Unallocated corporate expenses				(78,798,685)
Unallocated corporate income				13,375,541
Finance costs				(1,600,366)
Loss before taxation				(199,461,182)

Segment results represent the profit earned by or loss from each segment without allocation of unallocated corporate expenses, unallocated corporate income, share of loss of an associate, loss on disposal of property, plant and equipment, impairment loss recognised on amount due from an associate, impairment loss recognised on other receivables, impairment loss recognised on investment in an associate, provision for inventories, impairment loss recognised on intangible assets, impairment loss recognised on goodwill, gain on disposal of subsidiaries and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(CONTINUED)*

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	Automotive electronic products and safety spare parts HK$	**Car trading HK$**	**Finance lease of motor vehicles and equipment HK$**	**Total HK$**
Year ended 31 December 2016				
Segment assets	**14,841,053**	**7,320,333**	**69,885,302**	**92,046,688**
Segment liabilities	**17,897,203**	**2,092,139**	**76,327**	**20,065,669**

	Automotive electronic products and safety spare parts HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2015				
Segment assets	132,449,372	76,256,196	26,528,438	235,234,006
Segment liabilities	45,038,309	6,052,430	7,563,942	58,654,681

Reconciliation of reportable segments' assets and liabilities:

	2016 HK$	2015 HK$
Assets		
Total assets of reportable segments	**92,046,688**	235,234,006
Unallocated headquarter amounts:		
Prepayments and other receivables	**115,403,174**	57,751,468
Available-for-sale investments	**209,000,000**	78,500,000
Cash and cash equivalents	**143,781,827**	240,100,479
Office equipment and motor vehicles	**3,610,762**	4,132,694
Interests in associates	**10,000,000**	–
Consolidated total assets	**573,842,451**	615,718,647
Liabilities		
Total liabilities of reportable segments	**20,065,669**	58,654,681
Unallocated headquarter amounts:		
Other payables	**14,337,704**	18,882,254
Other loans	**9,667,984**	17,500,000
Convertible bond	**46,132,190**	–
Deferred tax liabilities	**2,453,188**	–
Current tax payable	**801,035**	3,054,585
Consolidated total liabilities	**93,457,770**	98,091,520

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(CONTINUED)*

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than available-for-sale investments and other unallocated corporate assets (mainly comprising prepayments and other receivables, cash and cash equivalents, office equipment and motor vehicles and interests in associates); and

- all liabilities are allocated to operating segments other than unallocated corporate liabilities (mainly comprising other payables, other loans, convertible bond, deferred tax liabilities and current tax payable).

Other segment information

	Automotive electronic products and safety spare parts HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Unallocated HK$	Total HK$
Year ended 31 December 2016					
Capital expenditure	**4,650,165**	**–**	**1,121,214**	**55,629**	**5,827,008**
Depreciation and amortisation	**3,456,985**	**–**	**112,076**	**577,561**	**4,146,622**
Taxation	**(3,151,752)**	**747,879**	**249,564**	**(409,773)**	**(2,564,082)**
Year ended 31 December 2015					
Capital expenditure	10,350,459	–	67,500	4,265,501	14,683,460
Depreciation and amortisation	11,222,883	–	19,377	132,807	11,375,067
Taxation	(1,281,410)	30,062	48,121	3,054,585	1,851,358

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION *(CONTINUED)*

Information about geographical areas

During the year, the Group was mainly operating in Hong Kong and the PRC. The Group's revenue from external customers based on the location of the operation and information about its non-current assets by geographical location are presented below:

	Automotive electronic products and safety spare parts		Car trading		Finance lease of motor vehicles and equipment		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Revenue								
Hong Kong	**–**	–	**55,000,000**	16,000,000	**–**	–	**55,000,000**	16,000,000
The PRC	**17,489,272**	66,014,928	**54,070,296**	106,344,876	**90,242,113**	6,246,519	**161,801,681**	178,606,323
Non-current assets								
Hong Kong	**–**	–	**–**	–	**–**	–	**–**	–
The PRC	**4,058,698**	62,005,755	**–**	–	**34,073,127**	8,245,459	**38,131,825**	70,251,214

Information about major customers

For the year ended 31 December 2016, revenue generated from three (2015: two) customers of the Group with total aggregate amount of HK$116,595,572 (2015: HK$130,748,354) has individually accounted for over 10% of the Group's total revenue. No other single customers contributed 10% or more to the Group's revenue for both years.

Revenue from major customers amounted to 10% or more of the Group's revenue, is set out below:

	2016	2015
	HK$	HK$
Customer A	**55,000,000**	–
Customer B (note)	**–**	47,211,137
Customer C (note)	**–**	83,537,217
Customer D	**32,898,887**	–
Customer E	**28,696,685**	–

Note:

No information on revenue for the current year is disclosed for these customers since they contributed less than 10% to the Group's revenue for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. REVENUE

The Group is principally engaged in production and sale of automotive related products, car trading and provision of financing service for leasing motor vehicles and equipment.

Revenue recognised during the year is analysed as follows:

	2016 HK$	2015 HK$
Sales of automotive safety system components and other automotive components	**17,489,272**	20,016,150
Sales of electronic airbag systems	**–**	45,998,778
Sales of cars	**109,070,296**	122,344,876
Finance lease income	**90,242,113**	6,246,519
	216,801,681	194,606,323

8. OTHER REVENUE

	2016 HK$	2015 HK$
Bank interest income	**290,246**	20,420
Subsidy income (note)	**198,280**	236,996
Sundry income	**183,924**	477,959
Dividends income from held-for-trading investments	**–**	286,000
Consultancy fee income	**454,301**	–
Loan interest income	**–**	3,973,917
	1,126,751	4,995,292

Note:

For the years ended 31 December 2016 and 2015, subsidy income mainly represents the reward for innovative and high-end technology enterprise in the PRC. Subsidy income received by the Group is recognised in the consolidated statement of profit or loss and other comprehensive income when received and no specific conditions have been required to fulfill. The subsidy income recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to those subsidy income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. OTHER GAINS AND LOSSES

	2016 HK$	2015 HK$
Net foreign exchange (gain)/loss	(104,003)	2,729,704
Loss on disposal of property, plant and equipment	–	4,059,977
Impairment loss recognised on amount due from an associate	6,006	7,515,200
Impairment loss recognised on investment in an associate	–	23,994,213
Impairment loss recognised on other receivables	4,047,749	–
Impairment loss recognised on intangible assets	12,956,676	19,237,409
Impairment loss recognised on goodwill	–	5,120,447
Provision for inventories	–	15,032,825
	16,906,428	77,689,775

10. RESEARCH AND DEVELOPMENT EXPENSES

	2016 HK$	2015 HK$
Research and development expenses incurred	2,193,905	58,349,616

11. FINANCE COSTS

	2016 HK$	2015 HK$
Interest expenses on bank loans	776,634	897,536
Interest expenses on other loans	561,182	106,032
Imputed interest expenses on convertible bond	3,175,491	–
Discounting charges on discounted bills receivable	–	596,798
	4,513,307	1,600,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

	2016 HK$	2015 HK$
Auditor's remuneration	**900,000**	900,000
Staff costs		
– Salaries, wages and bonuses	**22,490,818**	18,182,170
– Retirement scheme contributions and welfare	**645,455**	1,922,505
– Share-based payments	**13,590,585**	17,383,769
Depreciation of property, plant and equipment	**1,900,941**	5,735,353
Amortisation of leasehold land held for own use under operating leases	**51,776**	1,118,938
Amortisation of intangible assets		
– Patents	**2,193,905**	4,520,776
Operating lease charges in respect of rented properties	**3,750,753**	1,637,508
Cost of inventories	**144,459,431**	151,946,509
Gain on disposal of subsidiaries	**(26,996,996)**	–
Gain on disposal of available-for-sale investments	**(200,000)**	–
Realised gain on held-for-trading investments	**–**	(8,380,249)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. TAXATION

(a) Income tax recognised in profit or loss:

	2016 HK$	2015 HK$
Current tax:		
PRC Enterprise Income Tax	**611,218**	280,780
Hong Kong Profits Tax	**862,062**	3,084,647
Deferred tax:		
Current year credit	**(4,037,362)**	(1,514,069)
Total income tax (credited)/charged to profit or loss	**(2,564,082)**	1,851,358

Pursuant to the income tax rules and regulations of the PRC, provision for PRC Enterprise Income Tax of the Group is calculated based on the following rates:

	Note	2016	2015
Troitec Automotive Electronics Co., Ltd ("Troitec")	(i)	**25%**	25%
Shanghai Nanlang Finance Lease Limited ("Shanghai Nanlang")	(i) and (iii)	**25%**	25%
Hunan Delu Car Trading Limited ("Hunan Delu")	(i) and (iii)	**25%**	25%
Shanxi Avichina Jinheng Technology Limited ("Shanxi Jinheng")	(ii) and (iv)	**15%**	15%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. TAXATION *(CONTINUED)*

(a) Income tax recognised in profit or loss: *(Continued)*

Note:

(i) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

(ii) Shanxi Jinheng is "encouraged hi-tech enterprise" and entitle to reduce the tax rate to 15% from 2013 to 2016 and 2012 to 2014 respectively.

(iii) These companies were acquired during the year ended 31 December 2015.

(iv) The company was disposed of during the year ended 31 December 2016.

Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2016 (2015: 16.5%).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(b) Reconciliation between income tax and accounting profit at applicable tax rates

	2016 HK$	2015 HK$
Loss before taxation	**(40,362,088)**	(199,461,182)
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(8,421,657)**	(42,676,248)
Tax effect of non-deductible expenses	**4,018,726**	18,904,101
Tax effect of non-taxable revenue	**(4,535,829)**	(1,456,959)
Tax effect of tax concessions	**(144,613)**	2,312,142
Tax effect of unrecognised temporary differences and tax losses	**6,456,753**	25,375,486
Tax effect of share of profits of subsidiaries (note)	**–**	(567,164)
Under-provision in prior year	**102,538**	–
Tax reduction	**(40,000)**	(40,000)
Taxation	**(2,564,082)**	1,851,358

Note:

Hong Kong enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% on dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. During the year ended 31 December 2016, withholding tax of HK$Nil (2015: HK$567,164) has been credited to the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. DIRECTORS' REMUNERATION

Details of directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, are as follows:

Year ended 31 December 2016

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Sub-total HK$	Share-based payments HK$	Total HK$
Executive directors							
Mr. Ma Chi Kong Karl (appointed on 15 July 2016) (note (ii))	–	554,839	–	6,000	560,839	879,342	1,440,181
Mr. Shen Xiao (appointed on 21 June 2016)	–	1,583,333	–	9,000	1,592,333	879,342	2,471,675
Mr. Yang Ming (appointed on 21 June 2016)	–	1,266,667	–	9,000	1,275,667	879,342	2,155,009
Mr. Du Peng	–	1,200,000	–	9,000	1,209,000	2,571,856	3,780,856
Mr. Woo Kar Tung Raymond	–	2,400,000	–	18,000	2,418,000	2,571,856	4,989,856
Ms. Cheung Joanna Wai Sze	–	1,200,000	–	18,000	1,218,000	2,571,856	3,789,856
Mr. Li Feng (retired on 20 June 2016) (note (i), (ii))	–	–	–	–	–	–	–
Mr. Lam Wai Hung (resigned on 15 July 2016)	–	194,517	–	9,726	204,243	–	204,243
Non-executive directors							
Mr. Tsang Ling Biu, Gilbert	360,000	–	–	–	360,000	1,285,928	1,645,928
Mr. Sheng Ruzhi	360,000	–	–	–	360,000	1,285,928	1,645,928
Independent non-executive directors							
Hon. Shek Lai Him, Abraham (resigned on 6 January 2017)	360,000	–	–	–	360,000	–	360,000
Mr. Chen Jin	360,000	–	–	–	360,000	–	360,000
Mr. Poon Chiu Kwok	360,000	–	–	–	360,000	–	360,000
Mr. Wong Yuk Lun, Alan	180,000	–	–	9,000	189,000	–	189,000
Total	1,980,000	8,399,356	–	87,726	10,467,082	12,925,450	23,392,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. DIRECTORS' REMUNERATION *(CONTINUED)*

Details of directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, are as follows: *(Continued)*

Year ended 31 December 2015

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Sub-total HK$	Share-based payments HK$	Total HK$
Executive directors							
Mr. Li Feng (note (i),(ii))	–	–	–	–	–	–	–
Mr. Du Peng (appointed on 12 June 2015)	–	633,000	–	–	633,000	4,401,268	5,034,268
Mr. Woo Kar Tung Raymond (appointed on 1 September 2015)	–	800,000	–	6,000	806,000	1,484,800	2,290,800
Ms. Cheung Joanna Wai Sze (appointed on 25 June 2015)	–	620,000	–	10,000	630,000	4,401,268	5,031,268
Mr. Lam Wai Hung	–	360,000	–	18,150	378,150	542,659	920,809
Mr. Xing Zhanwu (retired on 2 June 2015) (note (i), (iii))	–	–	–	–	–	–	–
Ms. Ng Sau Lin (resigned on 25 June 2015)	–	58,333	–	–	58,333	387,614	445,947
Mr. Wong Ka Ching (resigned on 9 June 2015)	–	159,000	–	8,100	167,100	542,659	709,759
Mr. Wang Nai (appointed on 1 September 2015 and resigned on 23 October 2015)	–	170,967	–	–	170,967	1,484,800	1,655,767
Non-executive directors							
Mr. Tsang Ling Biu, Gilbert (appointed on 15 May 2015)	199,484	–	–	–	199,484	2,200,634	2,400,118
Mr. Sheng Ruzhi (appointed on 20 November 2015)	41,000	–	–	–	41,000	–	41,000
Independent non-executive directors							
Hon. Shek Lai Him, Abraham (appointed on 25 June 2015)	186,000	–	–	–	186,000	–	186,000
Mr. Chen Jin (appointed on 25 June 2015)	186,000	–	–	–	186,000	–	186,000
Mr. Poon Chiu Kwok (appointed on 1 September 2015)	120,000	–	–	–	120,000	–	120,000
Mr. Wong Yuk Lun, Alan	180,000	–	–	9,075	189,075	38,761	227,836
Mr. Lim Chi Kit (resigned on 25 June 2015)	87,500	–	–	4,375	91,875	38,761	130,636
Mr. Hui Hung Kwan (resigned on 25 June 2015)	58,333	–	–	–	58,333	–	58,333
Total	1,058,317	2,801,300	–	55,700	3,915,317	15,523,224	19,438,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. DIRECTORS' REMUNERATION *(CONTINUED)*

Details of directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, are as follows: *(Continued)*

Note:

(i) The directors agreed to waive their remuneration for the year ended 31 December 2015.

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group, or inducement to join. There were two directors as indicated above waived or agreed to waive remuneration of HK$1,194,666 for the year ended 31 December 2015.

(ii) During the year ended 31 December 2016, the executive director of the Company, Mr. Ma Chi Kong Karl, was also the Chairman of the Group (Mr. Li Feng, the former chairman and executive director of the Company retired upon conclusion of the AGM on 20 June 2016).

(iii) During the year ended 31 December 2015, the executive director of the Company, Mr. Xing Zhanwu, was also the chief executive officer of the Group and retired on 2 June 2015, no individual was formally appointed to fill his vacancy.

15. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group, included five (2015: five) directors whose emoluments are disclosed in note 14. The detail of the emoluments in respect of the remaining (2015: Nil) individuals who are neither a director nor chief executive of the Company for the years ended 31 December 2016 and 2015 are as follows:

	2016 **HK$**	2015 HK$
Salaries and other emoluments	–	–
Retirement scheme contributions	–	–
	–	–

The emoluments of the individuals who are not the director of the Company with the highest emoluments are within the following band:

	2016 **Number of** **individuals**	2015 Number of individuals
HK$1 – HK$500,000	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. DIVIDENDS

The directors of the Company do not recommend the payment of any dividends in respect of the year ended 31 December 2016 (2015: HK$ Nil).

17. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of HK$30,608,215 (2015: HK$144,698,559) and the weighted average of 928,184,888 (2015: 842,474,137) ordinary shares in issue during the year.

Weighted average number of ordinary shares

	2016 Number of shares	2015 Number of shares
Issued ordinary shares at 1 January	**928,184,888**	736,820,888
Effect of exercise of share options	–	25,309,589
Effect of placing of ordinary shares	–	80,343,660
Weighted average number of ordinary shares at 31 December	**928,184,888**	842,474,137

(b) Diluted loss per share

For the years ended 31 December 2016 and 2015, the computation of diluted loss per share does not include the company's outstanding share options and outstanding convertible bond because the effect was anti-dilutive. Therefore, the diluted loss per share of the company is the same as the basic loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. FIXED ASSETS

	Buildings held for own use HK$	Machinery and equipment HK$	Motor vehicles HK$	Office equipment HK$	Sub-total HK$	Interests in leasehold land held for own use under operating leases HK$	Total HK$
Cost:							
As at 1 January 2015	22,345,418	38,623,099	5,557,409	5,057,572	71,583,498	18,933,252	90,516,750
Additions	–	1,756,533	664,147	3,480,593	5,901,273	–	5,901,273
Acquisition of subsidiaries (note 36)	–	–	–	67,500	67,500	–	67,500
Acquisition of asset (note 37)	–	–	2,124,540	–	2,124,540	–	2,124,540
Disposals	(287,157)	(29,162,451)	(890,210)	(60,479)	(30,400,297)	–	(30,400,297)
Exchange alignment	(1,461,275)	(1,346,361)	(80,699)	(369,147)	(3,257,482)	(519,333)	(3,776,815)
As at 31 December 2015 and 1 January 2016	20,596,986	9,870,820	7,375,187	8,176,039	46,019,032	18,413,919	64,432,951
Additions	–	3,337,857	–	1,254,583	4,592,440	–	4,592,440
Disposal of subsidiaries (note 38)	(20,517,048)	(11,463,280)	(207,959)	(6,361,879)	(38,550,166)	(17,881,115)	(56,431,281)
Exchange alignment	(79,938)	(535,779)	(2,611,210)	(410,299)	(3,637,226)	(532,804)	(4,170,030)
As at 31 December 2016	–	1,209,618	4,556,018	2,658,444	8,424,080	–	8,424,080
Accumulated depreciation:							
As at 1 January 2015	6,481,766	26,577,160	1,070,651	2,723,698	36,853,275	7,675,882	44,529,157
Charge for the year	1,139,146	2,380,664	331,131	1,884,412	5,735,353	1,118,938	6,854,291
Written back on disposal	(100,241)	(25,106,433)	(574,387)	(50,321)	(25,831,382)	–	(25,831,382)
Exchange alignment	(241,921)	(1,282,781)	(86,285)	(300,212)	(1,911,199)	(46,243)	(1,957,442)
As at 31 December 2015 and 1 January 2016	7,278,750	2,568,610	741,110	4,257,577	14,846,047	8,748,577	23,594,624
Disposal of subsidiaries (note 38)	(7,433,441)	(2,868,180)	(187,163)	(2,188,584)	(12,677,368)	(8,240,001)	(20,917,369)
Charge for the year	280,999	923,267	295,889	400,786	1,900,941	51,776	1,952,717
Exchange alignment	(126,308)	(89,163)	(208,900)	(57,428)	(481,799)	(560,352)	(1,042,151)
As at 31 December 2016	–	534,534	640,936	2,412,351	3,587,821	–	3,587,821
Carrying out amounts:							
As at 31 December 2016	–	675,084	3,915,082	246,093	4,836,259	–	4,836,259
As at 31 December 2015	13,318,236	7,302,210	6,634,077	3,918,462	31,172,985	9,665,342	40,838,327

Note:

(a) As at 31 December 2015, the Group's interests in leasehold land held for own use under operating leases are held by a subsidiary in the PRC, which represent the land use rights together with the buildings thereon situated in Shanxi in the PRC.

(b) As at 31 December 2015, leasehold land with carrying amount of HK$9,665,342 is situated outside Hong Kong under medium-term lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. CONSTRUCTION IN PROGRESS

	2016	2015
	HK$	HK$
As at 1 January	**6,369,951**	–
Additions	**1,234,568**	6,590,147
Derecognised on disposal of subsidiaries (note 38)	**(7,602,460)**	–
Exchange alignment	**(2,059)**	(220,196)
As at 31 December	**–**	6,369,951

20. INTANGIBLE ASSETS

	Development costs	**Patents**	**Total**
	HK$	HK$	HK$
Cost:			
As at 1 January 2015	46,924,334	80,102,500	127,026,834
Exchange alignment	(2,127,834)	(3,632,333)	(5,760,167)
As at 31 December 2015 and 1 January 2016	44,796,500	76,470,167	121,266,667
Exchange alignment	(3,078,890)	(5,255,840)	(8,334,730)
As at 31 December 2016	**41,717,610**	**71,214,327**	**112,931,937**
Accumulated amortisation and impairment:			
As at 1 January 2015	46,924,334	35,473,967	82,398,301
Amortisation charge for the year	–	4,520,776	4,520,776
Impairment charge	–	19,237,409	19,237,409
Exchange alignment	(2,127,834)	(1,759,656)	(3,887,490)
As at 31 December 2015 and 1 January 2016	44,796,500	57,472,496	102,268,996
Amortisation charge for the year	–	2,193,905	2,193,905
Impairment charge	–	12,956,676	12,956,676
Exchange alignment	(3,078,890)	(5,263,849)	(8,342,739)
As at 31 December 2016	**41,717,610**	**67,359,228**	**109,076,838**
Carrying amounts:			
As at 31 December 2016	**–**	**3,855,099**	**3,855,099**
As at 31 December 2015	–	18,997,671	18,997,671

20. INTANGIBLE ASSETS *(CONTINUED)*

Development costs represent costs incurred to develop tailor-made safety airbag systems and engine management systems.

Patents represent the registration fee of technologies developed by Troitec, which have been registered with the relevant government authorities to restrict the access of such technologies by third parties. The directors consider that the estimated useful life of the patents of Troitec to be 18 years.

As at 31 December 2016, the estimated useful life of the patents remained 8 years.

For the review of impairment, the carrying amount of patent has been allocated to CGU of operating segment of the production and sales of automotive electronic product and safety spare parts business containing goodwill, its recoverable amount was determined based on value in use calculation. As the carrying amount of patents is higher than the recoverable amount, impairment loss of HK$12,956,676 was recognised in profit or loss during the year ended 31 December 2016 (2015: HK$19,237,409). For more details of the impairment loss recognised on intangible assets, please refer to note 39.

Amortisation charge for the year ended 31 December 2016 of HK$2,193,905 (2015: HK$4,520,776) is included in "research and development expenses".

21. GOODWILL

	2016	2015
	HK$	HK$
As at 1 January	**3,380,099**	5,363,669
Impairment charge	–	(5,120,447)
Additional amount recognised from acquisition of subsidiaries during the year (note 36)	–	3,380,099
Exchange alignment	–	(243,222)
As at 31 December	**3,380,099**	3,380,099

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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21. GOODWILL *(CONTINUED)*

Impairment tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill has been allocated to the following CGUs. The carrying amount of goodwill (net of impairment loss) as at 31 December 2016 and 2015 are allocated as follows:

	2016	2015
	HK$	HK$
Finance lease of motor vehicles and equipment	**3,380,099**	3,380,099
	3,380,099	3,380,099

Finance lease of motor vehicles and equipment

The recoverable amount of this CGU is determined by reference to the income approach, which is based on discounted cash flow based on the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.43% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% growth rate.

The key assumptions included in the discounted cash flow were as follows:

- For the CGU to continue as a going concern, it will successfully carry out all necessary activities for the development of its business;

- The availability of finance will not be a constraint on the forecast growth of the CGU in accordance with the business plans;

- Market trends and conditions where the business enterprise operates will not deviate significantly from the economic forecasts in general;

- Key management, competent personnel, and technical staff will all be retained to support ongoing operations of the CGU;

21. GOODWILL *(CONTINUED)*

Finance lease of motor vehicles and equipment (Continued)

- There will be no material changes in the business strategy of the CGU and its operating structure;

- Interest rates and exchange rates in the localities for the operation of the CGU will not differ materially from those presently prevailing;

- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organisation required to operate in the localities where the CGU operates or intends to operate will not be officially obtained and renewable upon expiry unless otherwise stated; and

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the CGU operates or intends to operate, which would adversely affect the revenues and profits attributable to the CGU.

As the recoverable amount of the CGU is higher than the carrying amount, no impairment loss on goodwill of this CGU is recognised in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. PARTICULARS OF SUBSIDIARIES

(a) The details of the Group's principal subsidiaries at the end of the reporting period are set out below:

Name of company	Place of incorporation/ registration/ operations	Class of shares held	Paid up/ registration capital	Proportion of ownership interest held by the Company				Principle activities
				Directly		Indirectly		
				2016 %	2015 %	**2016** %	2015 %	
Troitec	The PRC, limited liability company	Registered and paid up capital	RMB82,270,400	–	–	**65.8**	65.8	Production and sales of automotive components in the PRC
Shanxi Jinheng (note (ii))	The PRC, limited liability company	Registered and paid up capital	RMB30,040,000	–	–	–	60	Production and sales of automotive components in the PRC
Sunlight Management Limited	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Administration and management service to the Group
Splendid Best International Limited	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Car trading in HK
Shanghai Nanlang (note (i))	The PRC, limited liability company	Registered and paid up capital	RMB114,002,987	–	–	**51**	51	Provision of financing service for leasing motor vehicles and equipment In the PRC
Hunan Delu (note (i))	The PRC, limited liability company	Registered and paid up capital	RMB100,000	–	–	**51**	51	Car trading in the PRC

Note:

(i) These companies were acquired during the year ended 31 December 2015.

(ii) The company was disposed during year ended 31 December 2016.

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of company	Place of incorporation/ registration/ and operation	Proportion of ownership interests held by non-controlling interests		Proportion of voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2016 %	2015 %	**2016** %	2015 %	**2016** HK$	2015 HK$	**2016** HK$	2015 HK$
Shanxi Jinheng	The PRC	–	40	–	40	**433,986**	(9,432,899)	–	15,369,356
Troitec	The PRC	**48.8**	48.8	**48.8**	48.8	**(9,106,617)**	(49,489,078)	**(94,246,588)**	(81,603,315)
Shanghai Nanlang	The PRC	**49**	49	**49**	49	**(266,470)**	121,896	**60,527,834**	64,896,575

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

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22. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Shanxi Jinheng

	2016	2015
	HK$	HK$
Current assets	N/A	43,325,983
Non-current assets	N/A	38,299,848
Current liabilities	N/A	(43,112,942)
Non-current liabilities	N/A	(89,499)
Equity attributable to owners of the Company	N/A	23,054,034
Non-controlling interests	N/A	15,369,356
Revenue	N/A	67,155,042
Expenses	N/A	(90,737,288)
Loss for the year	N/A	(23,582,246)
Loss attributable to owners of the Company	N/A	(14,149,347)
Loss attributable to non-controlling interests	N/A	(9,432,899)
Loss for the year	N/A	(23,582,246)
Total comprehensive loss attributable to owners of the Company	N/A	(14,740,739)
Total comprehensive loss attributable to non-controlling interests	N/A	(9,827,160)
Total comprehensive loss for the year	N/A	(24,567,899)
Dividend paid to non-controlling interests	N/A	–
Net cash inflow from operating activities	N/A	17,797,865
Net cash outflow from investing activities	N/A	(9,334,172)
Net cash outflow from financing activities	N/A	(7,383,136)
Net cash inflow	N/A	1,080,557

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For the year ended 31 December 2016

22. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Troitec

	2016	2015
	HK$	HK$
Current assets	**43,273,883**	62,533,504
Non-current assets	**203,599**	49,019,966
Current liabilities	**(236,605,736)**	(274,415,315)
Non-current liabilities	**–**	(4,358,065)
Equity attributable to owners of the Company	**(98,881,666)**	(85,616,595)
Non-controlling interests	**(94,246,588)**	(81,603,315)
Revenue	**–**	72,246
Expenses	**(18,661,100)**	(101,484,293)
Loss for the year	**(18,661,100)**	(101,412,047)
Loss attributable to owners of the Company	**(9,554,483)**	(51,922,969)
Loss attributable to non-controlling interests	**(9,106,617)**	(49,489,078)
Loss for the year	**(18,661,100)**	(101,412,047)
Total comprehensive loss attributable to owners of the Company	**(13,265,071)**	(49,214,946)
Total comprehensive loss attributable to non-controlling interests	**(12,643,273)**	(46,907,994)
Total comprehensive loss for the year	**(25,908,344)**	(96,122,940)
Net cash outflow from operating activities	**(122,378)**	(4,345,079)
Net cash (outflow)/inflow from investing activities	**(14,860)**	4,403,206
Net cash (outflow)/inflow	**(137,238)**	58,127

22. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Shanghai Nanlang

	2016	2015
	HK$	HK$
Current assets	**103,911,699**	143,137,274
Non-current assets	**30,752,587**	4,862,710
Current liabilities	**(11,138,095)**	(15,557,993)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**62,998,357**	67,545,416
Non-controlling interests	**60,527,834**	64,896,575
Revenue	**90,954,982**	6,246,519
Expenses	**(91,498,799)**	(5,997,753)
(Loss)/profit for the year	**(543,817)**	248,766
(Loss)/profit attributable to owners of the Company	**(277,347)**	126,870
(Loss)/profit attributable to non-controlling interests	**(266,470)**	121,896
(Loss)/profit for the year	**(543,817)**	248,766
Total comprehensive loss attributable to owners of the Company	**(4,547,059)**	(3,570,675)
Total comprehensive loss attributable to non-controlling interests	**(4,368,741)**	(3,443,805)
Total comprehensive loss for the year	**(8,915,800)**	(7,014,480)
Net cash (outflow)/inflow from operating activities	**(24,447,231)**	33,648,550
Net cash outflow from financing activities	**(6,328,385)**	(470,462)
Net cash (outflow)/inflow	**(30,775,616)**	33,178,088

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations result in restrictions on exporting capital from the PRC, other than through normal dividends.

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For the year ended 31 December 2016

23. INTERESTS IN ASSOCIATES

	2016	2015
	HK$	HK$
Cost of investment in an associate (unlisted)	**10,000,000**	40,000,000
Amount due from an associate	**6,006**	7,515,200
Share of post-acquisition loss and other comprehensive income, net of dividend received	–	(16,005,787)
Impairment loss recognised on amount due from an associate (note)	**(6,006)**	(7,515,200)
Impairment loss recognised on investment in an associate (note)	–	(23,994,213)
	10,000,000	–

Note:

For the years ended 31 December 2016 and 2015, due to continuously suffered loss and failure to fulfill the business plan of associate, the directors of the Company reviewed the recoverability of the investment in associates and amount due from associates. There are indications for the non-recoverability of the investment in an associate for the year ended 31 December 2015 and the amount due from associates for the years ended 31 December 2016 and 2015. Under this circumstance, the impairment loss recognised on investment in an associate of HK$Nil (2015: HK$23,994,213) and amount due from associates of HK$6,006 (2015: HK$7,515,200) were made.

Details of the Group's associates at the end of the reporting period are as follows:

Name of entity	Form of entity	Place of incorporation	Principle place of operation	Class of shares held	Proportion of ownership interest held by the Group	Proportion of voting right held by the Group	Principle activities
Ever Tech Holdings Limited ("Ever Tech")	Limited liability company	British Virgin Islands	PRC	Ordinary	30%	30%	Investment holdings
Tuspark Global Limited ("Tuspark Global")	Limited liability company	British Virgin Islands	HK	Ordinary	28.57%	28.57%	Investment holdings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. INTERESTS IN ASSOCIATES *(CONTINUED)*

Summarised financial information in respect of the Group's associates are set out below. The summarised financial information below represents amount shown in the associate's financial statements prepared in accordance with HKFRSs.

Associates are accounted for using the equity method in the consolidated financial statements.

Ever Tech

	2016 **HK$**	2015 HK$
Current assets	–	–
Non-current assets	–	–
Current liabilities	–	(10,710,567)
Non-current liabilities	–	–
Revenue	–	–
Loss for the year	–	(13,169,435)
Other comprehensive loss for the year	–	–
Total comprehensive loss for the year	–	(13,169,435)
Dividend received from associate during the year	–	–

Reconciliation of the above summarised financial information to the carrying amount of the interests in the associate recognised in the consolidated financial statements:

	2016 **HK$**	2015 HK$
Net liabilities of associate	–	(10,710,567)
Proportion of ownership interests in Ever Tech held by the Group	**30%**	30%
	–	(3,213,170)
Effect of fair value adjustments at acquisition	–	34,722,583
Impairment loss recognised on amount due from an associate	–	(7,515,200)
Impairment loss recognised on investment in an associate	–	(23,994,213)
Carrying amount of ownership interests in Ever Tech held by the Group	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. INTERESTS IN ASSOCIATES *(CONTINUED)*

Tuspark Global

	2016 HK$	2015 HK$
Current assets	5,723,181	N/A
Non-current assets	38,051,127	N/A
Current liabilities	(39,322,889)	N/A
Non-current liabilities	–	N/A
Revenue	–	N/A
Profit for the year	–	N/A
Other comprehensive income for the year	–	N/A
Total comprehensive income for the year	–	N/A

Reconciliation of the above summarised financial information to the carrying amount of the interests in the associate recognised in the consolidated financial statements:

	2016 HK$	2015 HK$
Net assets of associate	4,451,419	N/A
Proportion of ownership interests in Tuspark Global held by the Group	28.57%	N/A
Group's share of net assets of Tuspark Global	1,271,770	N/A
Goodwill	8,728,230	N/A
Carrying amount of ownership interests in Tuspark Global held by the Group	10,000,000	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	HK$	HK$
Unlisted equity investments, at cost (note (a), (b) and (c))	**209,000,000**	78,500,000

As at 31 December 2016, all available-for-sale financial assets are held with the intention for a continuing strategic or long-term purpose, including an indirectly owned 13.5% effective equity interest in a property holding company in the PRC and a 7.88% equity interest in a company engaging in the design, development, manufacturing and sales of high performance supercars under the brand "Apollo" in China, Europe and internationally.

Unlisted equity investments are measured at cost less impairment for the years ended 31 December 2016 and 2015 since there was no quoted market price in an active market for the shares and the Directors of the Company were of the opinion that their fair values cannot be reliably measured. The Directors of the Company conduct a regular review on the performance of the investee companies.

Note:

(a) On 13 March 2015, the Group entered into a sale and purchase agreement with an independent third party for acquiring 18% of the entire issued share capital of More Cash Limited at a consideration of HK$73.0 million. More Cash Limited is the owner of the entire issued share capital of a company incorporated in Hong Kong, which in turn owns 75% equity interest in a company established in the PRC of which is principally engaged in estate industry. The principal assets of the PRC company are properties which comprise, among others, car park, shopping mall, office, apartment, hotel and restaurant in a commercial and residential complex located in Guangzhou City, the PRC. The development of such complex has been completed and the sale of which has been commenced since year 2012. Upon completion, the Group becomes indirectly interested in 18% of the entire issued share capital of More Cash Limited and becomes indirectly interested in 13.5% equity interest in the PRC company.

(b) On 25 March 2015, the Group entered into a sale and purchase agreement with an independent third party for acquiring 5% of the entire issued share capital of Grand Vision Communications Limited at a consideration of HK$5.5 million. Grand Vision Communications Limited is the owner of the entire issued share capital of a company incorporated in Hong Kong, which in turn wholly owns the entire equity interest in a company established in the PRC. Grand Vision Communications Limited and its subsidiaries are principally engaged in out-of-home advertising business. The unlisted equity investment was disposed of during the year at a sale consideration of HK$5.7 million.

(c) On 16 May 2016, the Group entered into a sale and purchase agreement with an independent third party for acquiring 7.88% of the entire issued share capital of Sino Partner Global Limited at a consideration of HK$136.0 million. Sino Partner Global Limited is the owner of the entire issued share capital of a company incorporated in Hong Kong, which in turn wholly owns the entire equity interest in two companies established in Hong Kong and a company established in Japan and 80% equity interest in a company established in Germany. Sino Partner Global Limited and its subsidiaries are principally engaged in the design, development, manufacturing and sales of high performance supercars under the brand "Apollo" in China, Europe and internationally.

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25. INVENTORIES

	2016 HK$	2015 HK$
Raw materials	**9,332,519**	11,846,311
Work-in-progress	–	193,141
Finished goods	**8,770,169**	59,556,964
Less: Provision for inventories	–	(15,032,825)
	18,102,688	56,563,591

The amount of inventories recognised as an expense under "cost of sales" amounted to HK$144,459,431 during the year ended 31 December 2016 (2015: HK$151,946,509).

For the year ended 31 December 2016, no provision for inventories was made. For the year ended 31 December 2015, due to slow moving of inventories, the net realisable value of the inventories was less than the carrying amount of inventories, the Directors of the Company considered to make a provision for inventories of HK$15,032,825.

26. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2016 HK$	2015 HK$
Trade receivables	**163,587**	62,187,188
Less: allowance for doubtful debts	–	(10,027,268)
	163,587	52,159,920
Bills receivable	–	12,114,934
	163,587	64,274,854
Deposits and prepayments	**25,246,446**	20,105,858
Other receivables	**90,156,728**	63,704,134
	115,566,761	148,084,846

As at 31 December 2016, HK$Nil (2015: HK$10,143,198) of bills receivable were pledged to the banks to secure short-term bank loans as set out in note 31 to the consolidated financial statements. All the bills receivable will be matured within six months (2015: six months) after the end of the reporting period. All the bills receivable are denominated in RMB.

As at 31 December 2016, included in other receivables mainly comprise amount due from a non-controlling interest shareholder amounting to HK$27,404,658 (2015: HK$29,444,776).

Due to the long-aged debt, the Groups decided that the amount would not be collectible and hence impairment on other receivable of HK$4,047,749 was made in accordance with the Group's credit policy regarding the treatment of long-aged debt.

All of the trade receivables, bills receivable and other receivables are expected to be recovered within one year.

26. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(a) Ageing analysis

The ageing analysis of trade receivables, based on the invoice date, and net of allowance for doubtful debts, is as follows:

	2016 **HK$**	2015 HK$
Within 3 months	**163,587**	52,097,558
Over 3 months but less than 6 months	–	62,362
Over 6 months but less than 12 months	–	–
Over 12 months	–	–
	163,587	52,159,920

The Group generally grants a credit period for 90 to 180 days from the date of billing.

(b) Impairment of trade receivables

Impairment loss in respect of trade receivables is recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The ageing analysis of the Group's trade receivables which are impaired is presented as follows:

	2016 **HK$**	2015 HK$
Overdue by:		
Over 12 months	–	10,027,268

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	2016 **HK$**	2015 HK$
As at 1 January	**10,027,268**	10,027,268
Amounts written off as uncollectible	**(10,027,268)**	–
As at 31 December	–	10,027,268

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For the year ended 31 December 2016

26. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2016	2015
	HK$	HK$
Neither past due nor impaired	**163,587**	52,159,920
Overdue by:		
Less than 3 months	**–**	–
Over 3 months but less than 12 months	**–**	–
Over 12 months	**–**	–
	–	–
Total	**163,587**	52,159,920

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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27. FINANCE LEASE RECEIVABLES

	2016	2015
	HK$	HK$
Current portion	**35,648,588**	18,085,823
Non-current portion	**29,671,130**	4,797,860
	65,319,718	22,883,683

Certain of the Group's motor vehicles are leased out under finance leases. All leases are denominated in RMB. The average term of finance leases entered into is 1 to 3 years.

Amounts receivable under finance leases

	Minimum lease payments		**Present value of minimum lease payments**	
	2016	2015	**2016**	2015
Not later than 1 year	**40,638,650**	20,663,898	**35,648,588**	18,085,823
Later than 1 year not later than 5 years	**32,672,679**	5,998,037	**29,671,130**	4,797,860
Later than 5 years	**–**	–	**–**	–
	73,311,329	26,661,935	**65,319,718**	22,883,683
Less: unearned finance income	**(7,991,611)**	(3,778,252)	**N/A**	N/A
Present value of minimum lease payments receivable	**65,319,718**	22,883,683	**65,319,718**	22,883,683

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 11.8% per annum for the year ended 31 December 2016 (2015: 12.4%).

The finance lease receivables as at 31 December 2016 are neither past due nor impaired.

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For the year ended 31 December 2016

28. CASH AND CASH EQUIVALENTS

	2016 HK$	2015 HK$
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	**143,781,827**	240,100,479

Cash and cash equivalents of the Group of HK$62,284,336 (2015: HK$56,622,443) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

29. TRADE AND OTHER PAYABLES

	2016 HK$	2015 HK$
Trade payables	**2,589,082**	19,555,842
Other payables and accruals	**23,064,537**	26,893,535
	25,653,619	46,449,377

All the trade and other payables are expected to be settled within one year.

As at 31 December 2016, HK$7,862,031 (2015: HK$7,994,050) included in other payables was deposits paid by customers for the financing services for leasing motor vehicles.

The ageing analysis of trade payables is as follows:

	2016 HK$	2015 HK$
Within 3 months	**51,545**	11,053,392
Over 3 months but less than 6 months	–	932,127
Over 6 months but less than 12 months	–	2,352,136
Over 12 months	**2,537,537**	5,218,187
	2,589,082	19,555,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current tax payable in the consolidated statement of financial position:

	2016	2015
	HK$	HK$
As at 1 January	**3,132,768**	95,218
Provision for income tax for the year (note 13)	**1,473,280**	3,365,427
Hong Kong Profits Tax	**(3,157,123)**	–
PRC Enterprise Income Tax paid	**(647,890)**	(327,877)
As at 31 December	**801,035**	3,132,768

(b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Development costs HK$	Acquired technology and patents HK$	Fixed assets HK$	Tax losses HK$	Unremitted earnings HK$	Others HK$ (Note)	Convertible bond HK$	Total HK$
As at 1 January 2015	4,129,845	14,583,150	1,652,223	(4,643,475)	567,164	249,798	–	16,538,705
Credited to consolidated statement of profit or loss and other comprehensive income (note 13)	–	(5,374,449)	(61,813)	4,643,475	(567,164)	(154,118)	–	(1,514,069)
Exchange alignment	(187,272)	(199,038)	(90,550)	–	–	(6,181)	–	(483,041)
As at 31 December 2015 and 1 January 2016	3,942,573	9,009,663	1,499,860	–	–	89,499	–	14,541,595
Issuance of convertible bond	–	–	–	–	–	–	2,977,144	2,977,144
Credited to consolidated statement of profit or loss and other comprehensive Income (note 13)	–	(3,513,406)	–	–	–	–	(523,956)	(4,037,362)
Derecognised on disposal of subsidiaries	–	–	(1,499,860)	–	–	(89,962)	–	(1,589,822)
Exchange alignment	(270,975)	(418,101)	–	–	–	463	–	(688,613)
As at 31 December 2016	**3,671,598**	**5,078,156**	–	–	–	–	**2,453,188**	**11,202,942**

Note:

Others represent temporary differences arising from different expense recognition criteria between accounting and tax basis.

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For the year ended 31 December 2016

30. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

(b) Deferred tax liabilities recognised *(Continued)*

	2016 HK$	2015 HK$
Deferred tax liabilities recognised on the consolidated statement of financial position	**11,202,942**	14,541,595

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$15,535,051 (2015: HK$23,289,500) as it is not probable that the future taxable profits against which the losses can be utilised will be available in relevant tax jurisdiction and entity. The tax losses will expire in the coming two to five years (2015: two to five years).

31. BORROWINGS

	2016 HK$	2015 HK$
Bank loans (note (a) and (b))	–	16,467,780
Other loans (note (c))	**9,667,984**	17,500,000
	9,667,984	33,967,780
Secured (note (a) and (b))	–	16,467,780
Unsecured (note (c))	**9,667,984**	17,500,000
	9,667,984	33,967,780
Carrying amount repayable:		
On demand or within one year	**9,667,984**	33,967,780
Less: amounts classified as current liabilities	**(9,667,984)**	(33,967,780)
	–	–

31. BORROWINGS *(CONTINUED)*

As at 31 December 2016 and 2015, terms of bank loans were summarised as follows:

(a) As at 31 December 2016, there was no short-term secured bank loan. As at 31 December 2015, the short-term secured bank loan of HK$6,324,582 carried an interest rate of 6.3% per annum.

(b) Included in short-term secured bank loans are discounted bills with recourse of HK$Nil (2015: HK$10,143,198) were secured by the related bills receivable.

(c) As at 31 December 2016, other loans of HK$9,667,984 (2015: HK$17,500,000) were obtained from independent third parties, which were unsecured, repayable within one year and carry an interest rate of 8% (2015: 8%) per annum.

Further details of the Group's management of liquidity risk are set out in note 5(b).

32. CONVERTIBLE BOND

On 16 May 2016, the Group entered into a sale and purchase agreement with an independent third party for acquiring 7.88% of the issued share capital of the Sino Partner at a consideration of HK$136,000,000, of which HK$61,000,000 was settled by the issuance of convertible bond (the "Convertible Bond"). Completion took place on 27 May 2016. The Convertible Bond initially matures at the third anniversary of the issue date (i.e. 26 May 2019). The initial conversion price was HK$0.884 per conversion share. The Convertible Bond contains two components, liability and equity elements. The equity element is presented in equity heading "Convertible bond reserve". The effective interest rate of the liability component is 12.40%. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in convertible bond reserve.

The Convertible Bond issued on 27 May 2016 recognised in the consolidated statement of financial position was calculated as follows:

	HK$
Fair value of Convertible Bond issued on 27 May 2016	**61,000,000**
Equity component	**(18,043,301)**
Liability component on initial recognition and amortised cost at 27 May 2016	**42,956,699**
Amortised cost as at 27 May 2016	**42,956,699**
Imputed interest expense	**3,175,491**
As at 31 December 2016	**46,132,190**

As at 31 December 2016, the outstanding principal amount of the Convertible Bond was HK$61,000,000. Imputed interest expense on the Convertible Bond is calculated using the effective interest method by applying the effective interest rate of 12.40% to the liability component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities, whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees' salaries.

The Group also operates a MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

34. SHARE OPTION SCHEMES

A summary of the share option schemes of the Company is set out in the section headed "Share Option Schemes" in the Report of the Directors of this report.

During the year ended 31 December 2016, a total of 67,360,000 share options were granted to Directors and senior management of the Company. Details of specific categories of share options are as follows:

	Date of grant	Exercisable period	Exercise price	Number of share options granted
Share Option 1	25 June 2015	25 June 2015 to 24 June 2016	HK$1.840	27,840,000
Share Option 2	1 September 2015	1 September 2015 to 31 August 2016	HK$0.930	9,280,000
Share Option 3	22 January 2016	22 January 2017 to 21 January 2026	HK$0.820	39,520,000
Share Option 4	12 October 2016	12 October 2017 to 11 October 2026	HK$0.822	27,840,000

During the year ended 31 December 2016, a total of 37,120,000 share options were cancelled and no share option was exercised or lapsed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. SHARE OPTION SCHEMES *(CONTINUED)*

The particulars of the changes of the share options under the scheme during the year ended 31 December 2016 are as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options: At 1 January 2016	Granted during the year	Cancelled during the year	At 31 December 2016
Director	25 June 2015	Immediately	25 June 2015 to 24 June 2016	1.840	23,200,000	–	(23,200,000)	–
Consultant (note)	25 June 2015	Immediately	25 June 2015 to 24 June 2016	1.840	4,640,000	–	(4,640,000)	–
Director	1 September 2015	Immediately	1 September 2015 to 31 August 2016	0.930	9,280,000	–	(9,280,000)	–
Director	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.820	–	37,120,000	–	37,120,000
Employee	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.820	–	2,400,000	–	2,400,000
Director	12 October 2016	1 year	12 October 2017 to 11 October 2026	0.822	–	27,840,000	–	27,840,000
					37,120,000	67,360,000	(37,120,000)	67,360,000
Exercisable at the end of the year								67,360,000
Weighted average exercise price (HK$)					1.613	0.821	1.613	0.821

Note:

Options granted to consultant were incentives for helping the Group to expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, their fair values are measured by reference to the fair value of the share options granted.

The fair value of the options granted is estimated at the date of grant using Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. The fair value of options granted during the year ended 31 December 2016 and 2015 was estimated on the date of grant using the following assumptions:

	Share Option 1	Share Option 2	Share Option 3	Share Option 4
Date of grant	25 June 2015	1 September 2015	22 January 2016	12 October 2016
Fair value at measurement date	HK$0.474	HK$0.320	HK$0.294	HK$0.427
Share price	HK$1.840	HK$0.930	HK$0.720	HK$0.780
Exercise price	HK$1.840	HK$0.930	HK$0.820	HK$0.822
Expected volatility	93.000%	126.000%	56.121%	70.550%
Option life	–	–	10 years	10 years
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	0.033%	0.013%	1.590%	1.105%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

During the year ended 31 December 2016, the total fair value of the share options granted was HK$13,590,585.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

(a) Share capital

Authorised and issued share capital

	2016		2015	
	Number of shares	**HK$**	Number of shares	HK$
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:				
As at 1 January	**928,184,888**	**9,281,849**	736,820,888	7,368,209
Placing of ordinary shares	–	–	147,364,000	1,473,640
Exercise of share options	–	–	44,000,000	440,000
As at 31 December	**928,184,888**	**9,281,849**	928,184,888	9,281,849

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Note:

(i) On 15 June 2015, the Company, through two placing agents, placed 147,364,000 ordinary shares of HK$0.01 each at a placing price of HK$0.866 for a total consideration, before expenses, of HK$127,617,224, which is intended to be used for future business, development and potential investment opportunities and/or general working capital of the Group.

(ii) During the year ended 31 December 2015, the Company alloted and issued 44,000,000 shares of HK$0.01 each for cash with an exercise price of HK$0.36.

(b) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Company Law of Cayman Islands.

35. CAPITAL AND RESERVES *(CONTINUED)*

(b) Nature and purpose of reserves *(Continued)*

(ii) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies.

(iv) Other reserve

Other reserve of the Group comprises the following:

– the fair value of existing share of net identifiable assets of a jointly controlled entity or an associate acquired over its carrying amount of net identifiable assets of subsidiaries at the date of which control is obtained by the Group;

– the excess of purchase consideration on acquisition of non-controlling interests over the carrying value of share of net assets acquired in accordance with the accounting policy adopted for subsidiaries and non-controlling interests; and

– gain on deemed disposal or partial disposal of subsidiaries where the Group's interest in a subsidiary is increased without losing control in accordance with the accounting policy adopted for subsidiaries and non-controlling interests.

(v) Share option reserve

This reserve represents the fair value of the actual or estimated number of unexercised share options granted to eligible persons, including any full-time and part-time employees, Directors, consultants or advisors of the Company and its subsidiaries or any associate of the Company, recognised in accordance with the share option scheme which is set out in the section headed "Share Option Schemes" in Report of the Directors of this report.

(vi) Convertible bond reserve

The convertible bond reserve represents the equity components of the convertible bond issued. Convertible bond issued are split into their liability and equity components at initial recognition at the fair values of the convertible bond, which is determined by independent qualified professional valuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. CAPITAL AND RESERVES *(CONTINUED)*

(c) Distributability of reserves

The Company had distributable reserves of HK$318,055,421 at 31 December 2016 (2015: HK$446,237,318), which include the Company's share premium and accumulated losses.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. Net debt is calculated as aggregate of bank loans and other loans less cash and cash equivalents. Adjusted capital comprises all components of equity.

During year ended 31 December 2016, the Group has complied with all the externally imposed capital requirements. The Group also has a strategy to maintain the net debt-to-adjusted capital ratio at or below 60% (2015: 60%).

The net debt-to-adjusted capital ratio at 31 December 2016 was as follows:

	2016 **HK$**	2015 HK$
Debt (note (a))	**55,800,174**	33,967,780
Less: Cash and cash equivalents	**(143,781,827)**	(240,100,479)
Net debt	**(87,981,653)**	(206,132,699)
Total equity (note (b))	**480,384,681**	517,627,127
Net debt-to-adjusted capital ratio	**N/A**	N/A

Notes:

(a) Debt comprises bank loans, other loans and convertible bond as detailed in note 31 and 32 respectively.

(b) Equity includes all capital and reserves of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. ACQUISITION OF SUBSIDIARIES

Name of subsidiary	Principal activity	Date of acquisition	Proportion of shares acquired	Consideration
Optimus Financial Group Limited ("Optimus Group")	Finance leasing and car trading business	3 December 2015	51%	71,891,000

At the date of acquisition, the fair values of net identifiable assets of acquired subsidiaries are as follows:

	Optimus Group HK$
Property, plant and equipment	67,500
Trade and other receivables	130,634,157
Finance lease receivables	24,055,993
Cash and cash equivalents	16,692,509
Trade and other payables	(30,320,015)
Bank borrowings	(6,795,044)
Net assets	**134,335,100**

The receivables acquired in these transactions with a fair value of HK$154,690,150 for Optimus Group were approximate to their gross contractual amounts and no balance was expected to be uncollectible.

Goodwill arising on acquisition:

	Optimus Group HK$
Cash consideration transferred	71,891,000
Plus: non-controlling interests	65,824,199
Less: fair value of identifiable net assets acquired	(134,335,100)
Goodwill arising on acquisition	3,380,099

The non-controlling interests in Optimus Group recognised at the date of acquisition was measured by reference to the present ownership instruments proportionate share in the recognised amounts of their identifiable net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

Net cash outflow on acquisition of subsidiaries:

	Optimus Group HK$
Consideration paid in cash	(71,891,000)
Less: cash and cash equivalent balance acquired	16,692,509
Net cash outflow	(55,198,491)

Impact of acquisition on the results of the Group

Revenue of HK$111,379,035 and profit of HK$935,018 contributed by Optimus Group, were recognised in the Group's loss for the year ended 31 December 2015.

Had these business combination be effective on 1 January 2015, the revenue of the Group would have been HK$203,558,854 and the loss for the year would have been HK$219,049,249. The Directors consider these number to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future period.

37. ACQUISITION OF ASSET

In October 2015, the Group acquired 100% of the entire issued share capital of Xedak Electrical Limited ("Xedak") for an aggregate consideration of RMB1,800,000 (equivalent to HK$2,124,540). Asset of Xedak is property, plant and equipment – motor vehicle, the purpose of the acquisition is for the Group's business operation.

The acquisition of Xedak did not constitute an acquisition of business. In accordance with HKFRS 3, such acquisition did not give rise to goodwill. Therefore, the Company recognised the asset at the date of acquisition.

The net asset acquired and recognised at the date of acquisition is as follows:

	HK$
Net asset acquired	
Property, plant and equipment	**2,124,540**
Total consideration satisfied by:	
Cash consideration	**2,124,540**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. ACQUISITION OF ASSET *(CONTINUED)*

Net cash outflow on acquisition of asset:

	HK$
Consideration paid in cash	(2,124,540)
Less: cash and cash equivalent balance acquired	–
Net cash outflow	(2,124,540)

38. DISPOSAL OF SUBSIDIARIES

On 1 March 2016, the Company entered into a disposal agreement pursuant to which the Company agreed to dispose of the entire issued share capital of Smooth Ever Limited and its subsidiaries (collectively, the "Smooth Ever Group") with a consideration of HK$34,000,000. The disposal was completed on 31 March 2016.

Summary of the effects of the disposal of Smooth Ever Group is as follows:

	HK$
Net assets disposed of:	
Property, plant and equipment	25,872,798
Construction in progress	7,602,460
Interests in leasehold land held for own use under operating leases	9,641,114
Inventories	9,576,761
Trade receivables, prepayments and other receivables	34,918,421
Cash and cash equivalents	5,023,127
Trade and other payables	(56,655,646)
Deferred tax liabilities	(1,589,822)
Non-controlling interests	(15,803,342)
	18,585,871
Release of exchange reserve	(11,582,867)
Gain on disposal	26,996,996
Consideration for disposal of Smooth Ever Group	34,000,000

Net cash inflow on disposal of Smooth Ever Group:

	HK$
Consideration received in cash and cash equivalent for disposal of Smooth Ever Group	15,000,000
Less: cash and cash equivalent balances disposed of	(5,023,127)
Net cash inflow	9,976,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. IMPAIRMENT TESTING ON CASH GENERATING UNIT

The Group carried out an impairment testing on the Cash Generating Unit. The review was performed by an independent qualified valuer as at 31 December 2016 and the value in use of the Cash Generating Unit has been measured by using cash flow projection based on the cash flows covering a 5-year period with discount rate and terminal growth rate of 14.43% and 3% respectively.

The key assumptions included in the cash flow projection were as follows:

- For the Cash Generating Unit to continue as a going concern, it will successfully carry out all necessary activities for the development of its business;
- The availability of finance will not be a constraint on the forecast growth of the Cash Generating Unit in accordance with the business plans;
- Market trends and conditions where the Business Enterprise operates will not deviate significantly from the economic forecasts in general;
- Key management, competent personnel, and technical staff will all be retained to support ongoing operations of the Cash Generating Unit;
- There will be no material changes in the business strategy of the Cash Generating Unit and its operating structure;
- Interest rates and exchange rates in the localities for the operation of the Cash Generating Unit will not differ materially from those presently prevailing;
- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organisation required to operate in the localities where the Cash Generating Unit operates or intends to operate will not be officially obtained and renewable upon expiry unless otherwise stated; and
- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Cash Generating Unit operates or intends to operate, which would adversely affect the revenues and profits attributable to the Cash Generating Unit.

The value in use amount of the Cash Generating Unit as at 31 December 2016 was HK$65,943,530 and impairment loss of HK$12,956,676 has been recognised during the year ended 31 December 2016 (2015: HK$24,357,856). The impairment loss of HK$Nil (2015: HK$5,120,447) was allocated to the goodwill of the Cash Generating Unit (note 21) and the remaining HK$12,956,676 (2015: 19,237,409) was allocated to the intangible assets (note 20). Any adverse change in assumptions used in the calculation of recoverable amount of the Cash Generating Unit would result in further impairment loss on the intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2016 and 2015 not provided for in the consolidated financial statements were as follows:

	2016 HK$	2015 HK$
Contracted for property , plant and equipment but not provided for	–	3,386,358

(b) At 31 December 2016 and 2015, the total future minimum lease payments under non-controllable operating leases payable were as follows:

	2016 HK$	2015 HK$
Within 1 year	2,625,849	2,662,033
After 1 year but within 5 year	1,313,690	3,565,730
	3,939,539	6,227,763

41. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions during the year.

Compensation to key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 14 and certain of the highest paid employee as disclosed in note 15, is as follows:

	2016 HK$	2015 HK$
Short-term employee benefits	10,379,357	3,859,617
Post-employment benefits	87,726	55,700
Share-based payments	12,925,450	15,523,224
	23,392,533	19,438,541

Total remuneration is included in "staff costs" (see note 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$	2015 HK$
Non-current assets		
Investments in subsidiaries	**37,265,550**	37,265,534
Current assets		
Prepayments and other receivables	**26,878,018**	3,534,315
Amounts due from subsidiaries	**245,330,956**	286,449,972
Cash and cash equivalents	**81,197,023**	168,896,698
	353,405,997	458,880,985
Current liabilities		
Other payables and accruals	**900,000**	394,500
Amounts due to subsidiaries	–	20,964,864
Current tax payable	–	3,054,585
	900,000	24,413,949
Non-current liabilities		
Convertible bond	**46,132,190**	–
Deferred tax liabilities	**2,453,189**	–
	48,585,379	–
Net current assets	**352,505,997**	434,467,036
Net assets	**341,186,168**	471,732,570
Capital and reserves		
Share capital	**9,281,849**	9,281,849
Reserves	**331,904,319**	462,450,721
Total equity	**341,186,168**	471,732,570

Approved and authorised for issue by the Board of Directors on 30 March 2017

Ma Chi Kong Karl
Chairman

Woo Kar Tung Raymond
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Reserve of the Company

	Share capital HK$	Share premium HK$	Share option reserve HK$	Convertible bond reserve HK$	(Accumulated losses)/ retained profits HK$	Total HK$
As at 1 January 2015	7,368,209	335,428,960	–	–	123,829,776	466,626,945
Loss for the year	–	–	–	–	(154,590,167)	(154,590,167)
Placing of ordinary shares (note 35(a)(i))	1,473,640	126,143,584	–	–	–	127,617,224
Transaction costs attributable to placing of ordinary shares	–	(3,345,835)	–	–	–	(3,345,835)
Share-based payments	–	–	19,584,403	–	–	19,584,403
Exercise of share options	440,000	18,811,000	(3,411,000)	–	–	15,840,000
As at 31 December 2015 and 1 January 2016	9,281,849	477,037,709	16,173,403	–	(30,760,391)	471,732,570
Loss for the year	–	–	–	–	(159,203,144)	(159,203,144)
Share-based payments	–	–	13,590,585	–	–	13,590,585
Issuance of convertible bond	–	–	–	18,043,301	–	18,043,301
Deferred taxation of convertible bond	–	–	–	(2,977,144)	–	(2,977,144)
Cancellation of share options	–	–	(16,173,403)	–	16,173,403	–
As at 31 December 2016	**9,281,849**	**477,037,709**	**13,590,585**	**15,066,157**	**(173,790,132)**	**341,186,168**

43. CONTINGENT LIABILITIES

As at 31 December 2016 and 2015, the Group did not have any significant contingent liabilities.

44. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2015, the additions of property, plant and equipment were partly settled by the deposits paid for acquisition of property, plant and equipment of HK$726,874, the purchase of available-for-sale investments were partly settled by the prepayment of HK$14,000,000. During the year ended 31 December 2016, the investment cost of acquisition of an associate was settled by the deposit of HK$10,000,000 and issue of convertible bond of HK$61,000,000 for acquisition of 7.88% of the issued share capital of the Sino Partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2017, the Company entered into a non-binding memorandum of understanding on strategic cooperation (the "MOU") with The Regents of the University of Michigan and TusStar Incubator Investment Ltd. ("TusStar"). The purpose of the MOU is to develop and expand a framework of cooperation among the parties through setting up an incubation center in Michigan with venture capital and private equity funds equipped, in order to support the technology development and commercialization of smart mobility and new energy vehicles for the global market. Details of which are set out in the announcement of the Company dated 18 January 2017.

On 27 January 2017, the termination agreements were entered into between (1) Pine Mega Limited, an indirect wholly-owned subsidiary of the Company and Kunshan Qidi Science Park Development Company Limited（昆山啟迪科技園發展有限公司）; (2) Marvel Rise Limited, an indirect wholly-owned subsidiary of the Company and Suzhou Ziguang Innovative Education Development Company Limited（蘇州紫光創新教育發展有限公司）; and (3) Shine Venture Limited, an indirect wholly-owned subsidiary of the Company and Nanjing Qidi Science Park Asset Management Company Limited（南京啟迪科技園資產管理有限公司）, pursuant to which the parties have agreed to terminate the joint venture arrangement in Kunshan, Suzhou and Nanjing, the PRC, details of which are set out in the announcement of the Company dated 27 January 2017.

On 17 February 2017, Sunny Voyage Limited ("Sunny Voyage"), a direct wholly-owned subsidiary of the Company, entered into a joint venture agreement with TusStar in relation to a proposed formation of an equity joint venture company to be established in the BVI, with limited liability by Sunny Voyage and TusStar pursuant to the terms of the joint venture agreement. The joint venture company shall be owned as to 50% by Sunny Voyage and 50% by TusStar. Details of which are set out in the announcement of the Company dated 17 February 2017.

On 1 March 2017, the Company entered into a subscription agreement with Tuspark Venture, Munsun Smart Mobility Fund LP and CM Securities Investment Limited (collectively the "Subscribers") and CM Securities (Hongkong) Company Limited (as sole lead arranger), pursuant to which (among others) each of the Subscribers conditionally agreed to subscribe the convertible bond of HK$100.0 million and the Company conditionally agreed to issue the convertible bond in an aggregate principal amount of and for a price no more than HK$300.0 million. The subscription agreement and the transactions contemplated thereunder, including the issue and allotment of the conversion shares under the specific mandate of the Company, are subject to certain conditions precedent. Details of the transaction are set out in the announcements of the Company dated 1 March 2017, 10 March 2017 and 13 April 2017 and circular of the Company dated 27 March 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. EVENTS AFTER THE REPORTING PERIOD *(CONTINUED)*

On 3 March 2017, Suzhou Qiyizhi Management Enterprise Limited ("Suzhou Qiyizhi"), being an indirect wholly-owned subsidiary of the Company, entered into (1) an agreement between Shanghai Dachen Hengsheng Venture Capital Centre (Limited Partnership) ("Dachen Hengsheng"), Mr. Xiong Renjie ("Mr. Xiong") and Suzhou Zhihua Automobile Electronics Co., Ltd. ("Suzhou Zhihua") pursuant to which Suzhou Qiyizhi agreed to acquire 3.4496% equity interest in Suzhou Zhihua agreed to be sold by Dachen Hengsheng and 1.5504% equity interest in Suzhou Zhihua agreed to be sold by Mr. Xiong in consideration of RMB15.0 million; (2) an agreement between Suzhou Junqi Shihe Investment Management Enterprise (Limited Partnership) ("Suzhou Junqi") and Suzhou Zhihua, pursuant to which Suzhou Qiyizhi agreed to acquire 1% equity interest in Suzhou Zhihua from Suzhou Junqi in consideration of RMB3.0 million; and (3) a co-operation agreement entered into between Suzhou Qiyizhi, Suzhou Zhihua and Suzhou Yinwo Investment Management Enterprise (Limited Partnership) in relation to, the provision of financial assistance in the total amount of RMB40.0 million by the Company to Suzhou Zhihua, and the grant of an option by Suzhou Zhihua to Suzhou Qiyizhi pursuant to which Suzhou Qiyizhi or its designated nominee shall be entitled to (should it choose to) contribute to the capital increase of Suzhou Zhihua, representing around 17.5% equity interest in Suzhou Zhihua (as enlarged by the proposed subscription in the capital increase of Suzhou Zhihua pursuant to the relevant agreement). Details of which are set out in the announcement of the Company dated 3 March 2017.

On 31 March 2017, the Company had granted a total of 1,000,000 share options to an employee of the Group. Details of which are set out in the announcement of the Company published on even date.

Saved as disclosed above, so far as is known to the Directors, there are no subsequent events occurred after 31 December 2016, which may have a significant effect, on the assets and liabilities of future operations of the Group.

46. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2016

The consolidated financial statements were approved and authorised for issue by the board of Directors on 30 March 2017.

	For the year ended 31 December				
	2012 HK$	2013 HK$	2014 HK$	2015 HK$	**2016 HK$**
OPERATING RESULTS					
Revenue	261,047,793	199,820,947	184,878,802	194,606,323	**216,801,681**
Loss before taxation	(5,422,924)	(101,619,683)	(136,299,564)	(199,461,182)	**(40,362,088)**
Taxation	(33,856,646)	1,152,753	1,186,020	(1,851,358)	**2,564,082**
Loss for the year	(39,279,570)	(100,466,930)	(135,113,544)	(201,312,540)	**(37,798,006)**
Attributable to:					
Owners of the Company	(33,571,296)	(62,824,918)	(96,080,590)	(144,698,559)	**(30,608,215)**
Non–controlling interests	(5,708,274)	(37,642,012)	(39,032,954)	(56,613,981)	**(7,189,791)**
Loss for the year	(39,279,570)	(100,466,930)	(135,113,544)	(201,312,540)	**(37,798,006)**
Loss per share					
– Basic	(6.53) cents	(12.26) cents	(16.35) cents	(17.18) cents	**(3.30) cents**
– Diluted	(6.53) cents	(12.26) cents	(16.35) cents	(17.18) cents	**(3.30) cents**

	As at 31 December				
	2012 HK$	2013 HK$	2014 HK$	2015 HK$	**2016 HK$**
Assets and liabilities					
Non-current assets	343,701,997	375,476,818	132,166,912	152,883,908	**260,742,587**
Net current assets	346,331,958	221,238,879	381,354,415	379,284,814	**276,977,226**
Total assets less current liabilities	690,033,955	596,715,697	513,521,327	532,168,722	**537,719,813**
Non-current liabilities	(21,657,738)	(20,124,266)	(16,538,705)	(14,541,595)	**(57,335,132)**
NET ASSETS	668,376,217	576,591,431	496,982,622	517,627,127	**480,384,681**
Capital and reserves					
Share capital	5,138,489	5,117,189	7,368,209	9,281,849	**9,281,849**
Reserves	627,507,330	549,017,433	521,420,638	531,707,336	**517,662,384**
Total equity attributable to owners of the Company	632,645,819	554,134,622	528,788,847	540,989,185	**526,944,233**
Non-controlling interests	35,730,398	22,456,809	(31,806,225)	(23,362,058)	**(46,559,552)**
TOTAL EQUITY	668,376,217	576,591,431	496,982,622	517,627,127	**480,384,681**