



啟迪國際有限公司

TUS International Limited

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 872

INTERIM
REPORT **2018**



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Chi Kong Karl (*Chairman*)

Mr. Du Peng

Mr. Shen Xiao

Ms. Cheung Joanna Wai Sze

(Resigned on 23 July 2018)

Non-executive Directors

Mr. Tsang Ling Biu, Gilbert

Mr. Qin Zhiguang

Independent Non-executive Directors

Hon. Quat Elizabeth (*JP*)

Mr. Poon Chiu Kwok

Mr. Wong Yuk Lun, Alan

AUTHORISED REPRESENTATIVES

Mr. Shen Xiao

Ms. Li Fung Shan

COMPANY SECRETARY

Ms. Li Fung Shan

AUDIT COMMITTEE

Mr. Poon Chiu Kwok

(*Committee Chairman*)

Hon. Quat Elizabeth (*JP*)

Mr. Tsang Ling Biu, Gilbert

Mr. Wong Yuk Lun, Alan

REMUNERATION COMMITTEE

Mr. Poon Chiu Kwok

(*Committee Chairman*)

Mr. Ma Chi Kong Karl

Hon. Quat Elizabeth (*JP*)

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. Wong Yuk Lun, Alan

REGISTERED OFFICE

Cricket Square

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House, 3/F.
24 Shedden Road, P.O. Box 1586
Grand Cayman, KYI-1110
Cayman Islands

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower, The Landmark
11 Pedder Street, Central, Hong Kong

LEGAL ADVISER

As to Hong Kong Law:

JC Legal
13/F., The Strand
49 Bonham Strand
Sheung Wan
Hong Kong

As to Cayman Island Law:

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Cayman Islands

STOCK CODE

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The board of directors (the "Board") of TUS International Limited (the "Company") is pleased to announce the unaudited consolidated interim results for the six months ended 30 June 2018 of the Company and its subsidiaries (collectively the "Group"), together with comparative figures for the previous period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
	Note	2018 HK\$ (Unaudited)	2017 HK\$ (Unaudited)
Revenue	3	225,058,460	84,203,309
Cost of sales		(202,834,703)	(79,331,105)
Gross profit		22,223,757	4,872,204
Other revenue		2,188,336	59,795
Other loss	5	(493,975)	(74,335)
Research and development expenses		(7,619,702)	–
Selling and distribution expenses		(5,837,806)	(969,724)
Administrative expenses		(41,205,550)	(32,138,355)
Finance costs	6	(23,438,686)	(5,332,472)
Share of loss of an associate		(1,017,009)	(1,591,996)
Share of loss of a joint venture		(846,488)	–
Loss before taxation	7	(56,047,123)	(35,174,883)
Taxation	8	330,600	364,312
Loss for the period		(55,716,523)	(34,810,571)
Other comprehensive (loss)/income for the period, net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		(15,541,517)	4,897,731
Total comprehensive loss for the period		(71,258,040)	(29,912,840)
Loss for the period attributable to:			
Owners of the Company		(49,635,396)	(34,506,457)
Non-controlling interests		(6,081,127)	(304,114)
		(55,716,523)	(34,810,571)
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		(63,496,099)	(31,802,741)
Non-controlling interests		(7,761,941)	1,889,901
		(71,258,040)	(29,912,840)
Loss per share			
– Basic and diluted (HK cents)	10	(5.26)	(3.72)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 30 June 2018*

	<i>Note</i>	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Non-current assets			
Fixed assets			
– Property, plant and equipment	<i>11</i>	24,945,431	20,654,257
Construction in progress		3,495,494	2,635,365
Deposit	<i>13</i>	47,421,458	48,029,760
Finance lease receivables	<i>14</i>	37,779,369	58,062,691
Intangible assets		54,670,797	40,625,172
Goodwill		164,772,765	164,772,765
Interests in associates		5,591,752	6,608,761
Interests in a joint venture		934,556	611,044
Available-for-sale investments		–	357,595,055
Financial assets at fair value through other comprehensive income	<i>12</i>	416,841,311	–
		756,452,933	699,594,870
Current assets			
Inventories		105,399,510	83,653,878
Trade and bills receivables, prepayments and other receivables	<i>13</i>	259,842,127	238,025,633
Finance lease receivables	<i>14</i>	100,810,092	95,150,945
Pledged bank deposits	<i>15</i>	54,940,075	63,177,893
Cash and cash equivalents		148,207,459	63,446,857
		669,199,263	543,455,206
Current liabilities			
Trade and bills payables and other payables	<i>16</i>	295,609,802	286,049,209
Current tax payable		463,848	1,268,036
Borrowings	<i>17</i>	146,878,015	83,983,628
		442,951,665	371,300,873
Net current assets		226,247,598	172,154,333
Total assets less current liabilities		982,700,531	871,749,203
Non-current liabilities			
Deferred tax liabilities		7,092,991	4,396,883
Convertible bonds	<i>18</i>	376,507,924	334,352,226
		383,600,915	338,749,109
Net assets		599,099,616	533,000,094
Capital and reserves			
Share capital	<i>19</i>	12,231,849	9,281,849
Reserves		546,656,264	478,837,851
Equity attributable to owners of the Company		558,888,113	488,119,700
Non-controlling interests		40,211,503	44,880,394
Total equity		599,099,616	533,000,094

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company											
	Share capital	Share premium	Statutory surplus reserve	Exchange reserve	Other reserve	Share option reserve	Convertible bonds reserves	Warrants reserve	Retained profits	Sub-total	Non-controlling interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2017 (Audited)	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
Loss for the period	-	-	-	-	-	-	-	-	(34,506,457)	(34,506,457)	(304,114)	(34,810,571)
Other comprehensive income for the period, net of income tax:												
Exchange differences on translation of financial statements of foreign operations	-	-	-	2,703,716	-	-	-	-	-	2,703,716	2,194,015	4,897,731
Total comprehensive income/(loss) for the period	-	-	-	2,703,716	-	-	-	-	(34,506,457)	(31,802,741)	1,889,901	(29,912,840)
Share-based payments	-	-	-	-	-	6,643,270	-	-	-	6,643,270	-	6,643,270
Issue of convertible bond	-	-	-	-	-	-	22,178,368	-	-	22,178,368	-	22,178,368
Deferred taxation of convertible bonds	-	-	-	-	-	-	(3,411,931)	-	-	(3,411,931)	-	(3,411,931)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	46,996,379	46,996,379
At 30 June 2017 (Unaudited)	9,281,849	477,037,709	2,190,561	7,615,426	(48,988,413)	20,233,855	33,832,594	-	19,347,618	520,551,199	2,326,728	522,877,927
At 1 January 2018 (Audited)	9,281,849	477,037,709	2,190,561	6,278,029	(47,369,209)	23,457,860	33,337,594	5,040,560	(21,135,253)	488,119,700	44,880,394	533,000,094
Loss for the period	-	-	-	-	-	-	-	-	(49,635,396)	(49,635,396)	(6,081,127)	(55,716,523)
Other comprehensive loss for the period, net of income tax:												
Exchange differences on translation of financial statements of foreign operations	-	-	-	(13,860,703)	-	-	-	-	-	(13,860,703)	(1,680,814)	(15,541,517)
Total comprehensive loss for the period	-	-	-	(13,860,703)	-	-	-	-	(49,635,396)	(63,496,099)	(7,761,941)	(71,258,040)
Share-based payments (note 20)	-	-	-	-	-	754,809	-	-	-	754,809	-	754,809
Lapse of share option (note 20)	-	-	-	-	-	(6,690,871)	-	-	6,690,871	-	-	-
Issue of shares (note 19)	2,950,000	149,485,591	-	-	-	-	-	-	-	152,435,591	-	152,435,591
Issue of convertible bond (note 18)	-	-	-	-	-	-	20,418,727	-	-	20,418,727	-	20,418,727
Deferred taxation of convertible bonds	-	-	-	-	-	-	(3,906,931)	-	-	(3,906,931)	-	(3,906,931)
Changes in ownership interest in a subsidiary	-	-	-	-	(35,440,158)	-	-	-	-	(35,440,158)	3,095,524	(32,344,634)
At 30 June 2018 (Unaudited)	12,231,849	626,523,300	2,190,561	(7,582,674)	(82,809,367)	17,521,798	49,849,390	5,040,560	(64,079,778)	538,885,639	40,213,977	599,099,616

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2018*

	Six months ended 30 June	
	2018 HK\$ (Unaudited)	2017 HK\$ (Unaudited)
Net cash generated from/(used in) operating activities	27,692,773	(38,316,387)
Investing activities		
Purchase of available-for-sale investments	(59,276,823)	(20,733,696)
Acquisition of non-controlling interest	(32,344,635)	–
Purchase of intangible assets	(16,598,880)	–
Decrease/(increase) in pledged bank deposits	3,111,508	(50,935,354)
Other net cash flow arising from investing activities	(5,451,375)	(2,464,925)
Net cash used in investing activities	(110,560,205)	(74,133,975)
Financing activities		
Capital contribution from non-controlling interests of a subsidiary	–	45,153,383
Proceeds from issue of shares	114,488,412	–
Payment for transaction costs attributable to issue of shares	(5,979,411)	–
Proceeds from issue of convertible bonds	–	298,500,000
Proceeds from borrowings	92,838,411	16,522,479
Repayment of borrowings	(29,183,646)	(5,000,000)
Other net cash flow arising from financing activities	6,609,275	(645,666)
Net cash generated from financing activities	178,773,041	354,530,196
Net increase in cash and cash equivalents	95,905,609	242,079,834
Effect of foreign exchange rate changes	(11,145,007)	4,893,854
Cash and cash equivalents at 1 January	63,446,857	143,781,827
Cash and cash equivalents at 30 June	148,207,459	390,755,515

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 30 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of the interim financial report is in conformity with HKAS 34 which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (“Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2. New and revised HKFRSs

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the Annual Report 2017, except for the impact of the adoption of the new and revised HKASs, HKFRSs, amendments and interpretations described below.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. The impact of the adoption of HKFRS 9 Financial Instruments on the Group's interim condensed consolidated financial statements were stated below.

The other newly adopted standards did not have a material impact on the Group's policies and did not require retrospective adjustments.

HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the interim condensed consolidated financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated with the exception of certain aspects of hedge accounting.

Classification and measurement

On 1 January 2018 (the date of the initial application of HKFRS 9), the management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	HKAS 39 carrying amount as at 31 December 2017 HK\$	Reclassification HK\$	HKFRS 9 carrying amount as at 1 January 2018 HK\$
Available-for-sale investments (Note)	357,595,055	(357,595,055)	–
Financial assets at fair value through other comprehensive income (Note)	–	357,595,055	357,595,055

2. New and revised HKFRSs *(continued)*

New and amended standards adopted by the Group *(continued)*

Classification and measurement *(continued)*

Note:

Under HKAS 39, equity securities not held for trading were classified as available-for-sale investments. These equity securities are classified as financial assets at fair value through other comprehensive income under HKFRS 9. At 1 January 2018, the Group designated it as financial assets at fair value through other comprehensive income, as the investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- Trade receivables; and
- Other financial assets at amortised cost.

The Group is required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The provision for impairment loss for these financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

While cash and bank balances are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(i) Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and finance lease receivables. Applying the expected credit risk model resulted in immaterial impact on the expected credit loss allowance for these financial assets.

2. New and revised HKFRSs (continued)

New and amended standards adopted by the Group (continued)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" establishes a five-step model in accounting for revenue arising from contracts with customers which are recognised when a performance obligation is satisfied. It replaces existing revenue recognition guidance, including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations. The Group has elected to adopt HKFRS 15 using the modified retrospective approach, with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated. The application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognition of the Group. Therefore, the Group considered no adjustment is necessary.

3. Revenue

The Group is principally engaged in production and sale of advanced driving assistance system (ADAS) products and other automotive components, car-carried purifiers, car trading and provision of financing service for leasing motor vehicles and equipment.

Revenue recognised during the period is analysed as follows:

	Six months ended	
	30 June	
	2018	2017
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Sales of ADAS products and other automotive components	172,535,022	–
Sales of car-carried purifiers	–	–
Sales of cars	2,126,167	37,627,491
Finance lease income	50,397,271	46,575,818
	225,058,460	84,203,309

4. Segment information

Information reported to the Board 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 ADAS products and other automotive components, car-carried purifiers, car trading and provision of financing service for leasing motor vehicles and equipment.

4. Segment information (continued)

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

- ADAS products and other automotive components – sale of ADAS products and other automotive components in the People’s Republic of China (“PRC”)
- Car-carried purifiers – sale of car-carried purifiers in the PRC
- Car trading – sale of cars in the PRC
- Finance lease of motor vehicles and equipment – provision of 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:

	ADAS products and other automotive components		Car-carried purifiers		Car trading		Finance lease of motor vehicles and equipment		Total	
	six months ended 30 June		six months ended 30 June		six months ended 30 June		six months ended 30 June		six months ended 30 June	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)	HK\$ (Unaudited)
Segment revenue	172,535,022	-	-	-	2,126,167	37,627,491	50,397,271	46,575,818	225,058,460	84,203,309
Timing of revenue recognition										
At a point in time	172,535,022	-	-	-	2,126,167	37,627,491	-	-	174,661,189	37,627,491
Over time	-	-	-	-	-	-	50,397,271	46,575,818	50,397,271	46,575,818
Segment results	(10,333,364)	-	(1,822,391)	-	83,612	336,480	5,930,027	1,123,239	(6,142,116)	1,459,719
Unallocated corporate expenses									(29,691,301)	(29,746,537)
Unallocated corporate income									1,694,361	36,403
Finance costs									(20,044,570)	(5,332,472)
Share of loss of an associate									(1,017,009)	(1,591,996)
Share of loss of a joint venture									(846,480)	-
Loss before taxation									(56,047,123)	(35,174,883)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$Nil).

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

	ADAS products and other automotive components		Car-carried purifiers		Car trading		Finance lease of motor vehicles and equipment		Total	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	HK\$ (Unaudited)	HK\$ (Audited)	HK\$ (Unaudited)	HK\$ (Audited)	HK\$ (Unaudited)	HK\$ (Audited)	HK\$ (Unaudited)	HK\$ (Audited)	HK\$ (Unaudited)	HK\$ (Audited)
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	459,356,182	408,302,471	85,803,200	88,654,932	294,400	2,269,431	147,789,000	160,121,467	693,242,782	659,348,301
Segment liabilities	243,738,662	197,041,301	-	159,859	-	81,430	38,568,412	61,260,096	282,307,074	258,542,686

4. Segment information (continued)

Reconciliations of reportable segments' assets and liabilities:

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Assets		
Total assets of reportable segments	693,242,782	659,348,301
Unallocated and other corporate assets:		
Office equipment and motor vehicles	5,716,320	4,191,257
Interests in associates	5,591,752	6,608,761
Interests in a joint venture	934,556	611,044
Available-for-sale investments	–	357,595,055
Financial assets at fair value through other comprehensive income	416,841,311	–
Prepayments and other receivables	100,177,941	88,070,908
Cash and cash equivalents	203,147,534	126,624,750
Consolidated total assets	1,425,652,196	1,243,050,076
Liabilities		
Total liabilities of reportable segments	282,307,074	258,542,686
Unallocated and other corporate liabilities:		
Other payables	114,293,243	101,952,651
Current tax payable	463,848	1,268,036
Borrowings	45,887,500	9,537,500
Convertible bonds	376,507,924	334,352,226
Deferred tax liabilities	7,092,991	4,396,883
Consolidated total liabilities	826,552,580	710,049,982

5. Other loss

	Six months ended 30 June	
	2018 HK\$ (Unaudited)	2017 HK\$ (Unaudited)
Net foreign exchange loss	493,975	74,335
	493,975	74,335

6. Finance costs

	Six months ended 30 June	
	2018 HK\$ (Unaudited)	2017 HK\$ (Unaudited)
Interest expenses on bank loans	3,027,976	256,517
Interest expenses on other loans	2,610,258	389,151
Imputed interest expenses on convertible bonds	17,800,452	4,686,804
	23,438,686	5,332,472

7. Loss before taxation

Loss before taxation is arrived at after charging the following:

	Six months ended 30 June	
	2018 HK\$ (Unaudited)	2017 HK\$ (Unaudited)
Cost of inventories consumed	161,915,168	37,173,554
Depreciation of property, plant and equipment	1,229,315	319,527
Share-based payments	754,809	6,643,270
Amortisation of intangible assets	2,553,255	256,353

8. Taxation

	Six months ended 30 June	
	2018 HK\$ (Unaudited)	2017 HK\$ (Unaudited)
Current tax:		
PRC Enterprise Income Tax	880,224	409,011
Hong Kong Profits Tax	-	-
Deferred tax:		
Credit for the period	(1,210,824)	(773,323)
Total income tax credited to profit or loss	(330,600)	(364,312)

8. Taxation (continued)

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

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2018 and 2017. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2018 and 2017.

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.

9. Dividends

The Board does not recommend the payment of any interim dividends for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$Nil).

10. Loss per share**(a) Basic loss per share**

The calculation of basic loss per share for the six months ended 30 June 2018 is based on the loss for the period attributable to owners of the Company of HK\$49,635,396 (six months ended 30 June 2017: HK\$34,506,457) and the weighted average of 942,934,888 (six months ended 30 June 2017: 928,184,888) ordinary shares in issue during the period.

(b) Diluted loss per share

During the six months ended 30 June 2018 and 2017, the computation of diluted loss per share does not include the Company's outstanding share options and outstanding convertible bonds because the effect was anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

11. Fixed assets

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment with a cost of HK\$5,520,489 (six months ended 30 June 2017: HK\$3,786,871). During the six months ended 30 June 2018 and 2017, there were no disposal and written-off of property, plant and equipment.

12. Financial assets at fair value through other comprehensive income

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Unlisted equity investments (Notes (a) – (f))	416,841,311	–

12. Financial assets at fair value through other comprehensive income (continued)

Notes:

- (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 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 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 (“Sino Partner”) at a consideration of HK\$136.0 million. Sino Partner 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 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.
- (c) On 3 November 2016, the Group entered into a sale and purchase agreement with Suzhou Qijun Investment Management Company Limited* (蘇州騏驎投資管理有限公司) for acquiring 14% of the entire issued share capital of Suzhou Ziguang Innovative Education Development Company Limited* (蘇州紫光創新教育發展有限公司) (“Suzhou Ziguang”, and together with its subsidiaries the “Suzhou Ziguang Group”) at a consideration of approximately RMB126.8 million (equivalent to approximately HK\$145.4 million). Among the various businesses operations, Suzhou Ziguang 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 for rental incomes. The transaction was completed during the year ended 31 December 2017.
- (d) On 18 November 2017, TusStar Incubator Investment Ltd. (“TusStar”), of which Tus-Holdings Co., Ltd is the holding company, the Regents of the University of Michigan (“MICHIGAN”) and the Company have entered into a gap fund agreement in relation to the proposed establishment of the gap fund with a proposed size of up to USD1.0 million (approximately HK\$7.78 million), which will be principally engaged in advancing the commercialisation potential of MICHIGAN research discoveries. As at 31 December 2017, USD100,000 (approximately HK\$778,000) has been injected in the gap fund.

12. Financial assets at fair value through other comprehensive income (continued)

Notes: (continued)

- (e) Through the acquisition of Suzhou Zhihua Automobile Electronics Co., Ltd and Beijing Yinwo Automobile Technology Company Limited (collectively, "Suzhou Zhihua Group") during the year 2017, the Group has acquired the unlisted equity investments of HK\$1,192,911 and HK\$1,181,100 which represented 7.9% and 9.8% of the registered capital of the two companies incorporated in the PRC respectively which are principally engaged in development, production and sale of ADAS products.
- (f) On 9 March 2018 and 14 March 2018, the Group and certain leading enterprises of the industry (including automotive original equipment manufacturers (OEMs) and mobility service providers) jointly entered into a capital contribution agreement of the National Innovation Center, pursuant to which, the contract parties agreed to jointly establish the National Innovation Center of Intelligent Connected Vehicles (the "Center"). Each party will contribute RMB50.0 million (equivalent to approximately HK\$59.3 million) in cash and hold approximately 8.33% of the Center's equity interests.

13. Trade and bills receivables, prepayments and other receivables

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Non-current:		
Deposit (Note)	47,421,458	48,029,760
Current:		
Trade receivables	122,428,968	90,376,569
Bills receivables	37,235,218	59,578,156
Deposits and prepayments	15,290,302	8,694,280
Other receivables	84,887,639	79,376,628
	259,842,127	238,025,633

Note:

As at 30 June 2018 and 31 December 2017, deposit represents refundable deposit paid for acquisition of car-carried purifiers business.

13. Trade and bills receivables, prepayments and other receivables (continued)

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

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Within 3 months	112,740,466	79,110,957
Over 3 months but less than 6 months	3,232,470	9,217,775
Over 6 months but less than 12 months	6,456,032	2,047,837
	122,428,968	90,376,569

14. Finance lease receivables

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Current portion	100,810,092	95,150,945
Non-current portion	37,779,369	58,062,691
	138,589,461	153,213,636

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.

15. Pledged bank deposits

As at 30 June 2018, bank deposits of approximately RMB42.4 million (31 December 2017: RMB42.4 million) were pledged to secure general banking facilities granted to Suzhou Zhihua Automobile Electronics Co., Ltd (蘇州智華汽車電子有限公司) ("Suzhou Zhihua"), a subsidiary of the Group and HK\$643,320 (31 December 2017: HK\$8,651,385) were pledged to bills payables.

16. Trade and bills payables and other payables

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Trade payables	126,365,005	98,317,671
Bills payables	13,100,178	24,042,580
Other payables and accruals	156,144,619	163,688,958
	295,609,802	286,049,209

16. Trade and bills payables and other payables (continued)

The ageing analysis of trade payables is as follows:

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Within 3 months	123,123,661	92,787,753
Over 3 months but less than 6 months	2,351,017	3,648,697
Over 6 months but less than 12 months	721,071	342
Over 12 months	169,256	1,880,879
	126,365,005	98,317,671

17. Borrowings

	30 June 2018 HK\$ (Unaudited)	31 December 2017 HK\$ (Audited)
Bank loans (notes (a) and (b))	95,062,833	68,442,408
Other loans (note (c))	51,815,182	15,541,220
	146,878,015	83,983,628
Secured (notes (a) and (b))	89,135,151	68,442,408
Unsecured (notes (a) and (c))	57,742,864	15,541,220
	146,878,015	83,983,628

As at 30 June 2018 and 31 December 2017, terms of bank and other loans are summarised as follows:

- (a) As at 30 June 2018, the short-term secured bank loans of HK\$89,135,151 (2017: HK\$68,442,408) carries interest rate of 4.75% – 5.66% (2017: 4.75% – 5.66%) per annum and bank loans of HK\$5,927,682 (31 December 2017: HK\$Nil) were obtained from bank, which were unsecured, repayable within one year and carries interest rate of 5.66% (31 December 2017: Nil%) per annum.
- (b) As at 30 June 2018, HK\$23,710,729 (31 December 2017: HK\$12,007,440) bank loans were secured by personal guarantee given by a director of the subsidiary, HK\$6,147,599 (31 December 2017: HK\$8,405,208) bank loans were secured by a corporate guarantee, HK\$47,421,458 (31 December 2017: HK\$48,029,760) bank loans were pledged with the Group's bank deposit amounting to RMB42.4 million and HK\$11,855,365 (31 December 2017: HK\$Nil) bank loans were secured by bank acceptances bills.
- (c) As at 30 June 2018, other loans of HK\$51,815,182 (31 December 2017: HK\$15,541,220) were obtained from independent third parties, which were unsecured, repayable within one year and carries interest rate of 4.4% – 10.0% (31 December 2017: 4.4% – 8.5%) per annum.

18. Convertible bonds

	CB 1 (Note (a)) <i>HK\$</i>	CB 2 (Note (b)) <i>HK\$</i>	CB 3 (Note (c)) <i>HK\$</i>	Total <i>HK\$</i>
Liability component at 1 January 2017	46,132,190	–	–	46,132,190
Add: Liability component on initial recognition at 9 June 2017	–	276,321,632	–	276,321,632
Add: Imputed interest expense	5,720,391	16,287,601	–	22,007,992
Less: Interest charged	–	(10,109,588)	–	(10,109,588)
Liability component at 31 December 2017 and 1 January 2018 (audited)	51,852,581	282,499,645	–	334,352,226
Add: Liability component on initial recognition at 21 June 2018	–	–	33,281,273	33,281,273
Add: Imputed interest expense	3,043,030	14,675,247	82,175	17,800,452
Less: Interest charged	–	(8,926,027)	–	(8,926,027)
Liability component at 30 June 2018 (unaudited)	54,895,611	288,248,865	33,363,448	376,507,924

The convertible bonds – liability component are classified under non-current liabilities.

Notes:

- (a) 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 Sino Partner at a consideration of HK\$136.0 million, of which HK\$61.0 million was settled by the issuance of convertible bond (the “CB 1”). Completion took place on 27 May 2016. The CB 1 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 CB 1 contains two components, liability and equity elements. The equity element is presented in equity heading “Convertible bonds reserves”. 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 bonds reserves.

18. Convertible bonds *(continued)*Notes: *(continued)*(a) *(continued)*

CB 1 recognised in the consolidated statement of financial position is as follows:

	<i>HK\$</i>
Fair value of CB 1	61,000,000
Equity component	(18,043,301)
Liability component on initial recognition and amortised cost at 27 May 2016	42,956,699

As at 30 June 2018 and 31 December 2017, the outstanding principal amount of the CB 1 was HK\$61,000,000. Interest expense on the CB 1 is calculated using the effective interest method by applying the effective interest rate of 12.40% (31 December 2017: 12.40%) to the liability component.

- (b) On 1 March 2017, the Company entered into a subscription agreement with Tuspark Venture Investment Ltd., Munsun Smart Mobility Fund LP and CM Securities Investment Limited (collectively the “Subscribers”) (as 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 (the “CB 2”) 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. Completion took place on 9 June 2017. The CB 2 initially matures at the second anniversary of the issue date (i.e. 8 June 2019). The initial conversion price was HK\$0.9103 per conversion share. The CB 2 contains two components, liability and equity elements. The equity element is presented in equity heading “Convertible bonds reserves”. The effective interest rate of the liability component is 12.49%.

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 bonds reserves.

CB 2 recognised in the consolidated statement of financial position is as follows:

	<i>HK\$</i>
Fair value of CB 2	300,000,000
Equity component	(22,178,368)
Less: Commission	(1,500,000)
Liability component on initial recognition and amortised cost as at 9 June 2017	276,321,632

18. Convertible bonds (continued)

Notes: (continued)

(b) (continued)

As at 30 June 2018 and 31 December 2017, the outstanding principal amount of the CB 2 was HK\$300,000,000. Interest expense on the CB 2 is calculated using the effective interest method by applying the effective interest rate of 12.49% (31 December 2017: 12.49%) to the liability component.

- (c) On 17 April 2018, the Company and the subscribers entered into a subscription agreement, pursuant to which the Company conditionally agreed to allot and issue to the subscribers, and the subscribers severally and conditionally agreed to subscribe for, (i) a total of 395,000,000 subscription shares at the subscription Price of HK\$0.537 per subscription share (the "Subscription Price") and the total consideration of HK\$212,115,000 (comprising payment by cash in the amount of HK\$168,188,412 and by set off in the amount of HK\$43,926,588); and (ii) the 0% coupon convertible bonds due 21 June 2023 (the "CB 3") in the aggregate principal amount of HK\$53,700,000 (by set off in the amount of HK\$53,700,000) which may be converted into 100,000,000 conversion shares at the initial conversion price of HK\$0.537 (subject to adjustment) (the "Conversion Price"). Partial completion took place on 21 June 2018 which a total of 295,000,000 subscription shares were duly allotted and issued to the relevant subscribers at the Subscription Price and all the convertible bonds were duly converted and issued to the relevant subscribers at the Conversion Price. The CB 3 contains two components, liability and equity elements. The equity element is presented in equity heading "Convertible bonds reserves". The effective interest rate of the liability component is 10.04%.

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 bonds reserves.

CB 3 recognised in the consolidated statement of financial position is as follows:

	<i>HK\$</i>
Fair value of CB 3	53,700,000
Equity component	(20,418,727)
Liability component on initial recognition and amortised cost at 21 June 2018	33,281,273

As at 30 June 2018, the outstanding principal amount of the CB 3 was HK\$53,700,000. Interest expense on the CB 3 is calculated using the effective interest method by applying the effective interest rate of 10.04% to the liability component.

19. Share capital

	30 June 2018		31 December 2017	
	<i>Number of shares</i> (Unaudited)	<i>HK\$</i> (Unaudited)	<i>Number of shares</i> (Audited)	<i>HK\$</i> (Audited)
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000,000	10,000,000,000	100,000,000
<i>Issued:</i>				
As at 1 January	928,184,888	9,281,849	928,184,888	9,281,849
Subscription of shares (Note)	295,000,000	2,950,000	-	-
At the end of period/year	1,223,184,888	12,231,849	928,184,888	9,281,849

Note:

On 21 June 2018, the Company partially completed the allotment and issue of shares to subscribers for a total of 295,000,000 subscription shares at the subscription price of HK\$0.537 per subscription share.

20. Equity-settled share-based transactions***Equity-settled share option scheme***

On 19 June 2009, an ordinary resolution was proposed at the annual general meeting to approve the adoption of a share option scheme ("Share Option Scheme") and termination of the operation of the old share option scheme. The resolution was approved by the shareholders and the Share Option Scheme became effective for a period of 10 years commencing on 19 June 2009. Pursuant to an ordinary resolution passed at the annual general meeting of the Company on 5 June 2017, the maximum number of shares which may be issued upon exercise of all options that may be granted was refreshed to 92,818,488 shares.

Under the Share Option Scheme, the consideration paid for each grant of share options will be HK\$1.00. The subscription price shall be determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share. Details of the principal terms of the Share Option Scheme were summarised and set out in the circular to shareholders dated 29 April 2009.

20. Equity-settled share-based transactions (continued)**Equity-settled share option scheme (continued)**

A summary of the share option scheme of the Company is set out in the section headed "Share Option Scheme" in the Other Information of this interim report.

During the six months ended 30 June 2018, a total number of 10,280,000 (30 June 2017: 1,000,000) 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	22 January 2016	22 January 2017 to 21 January 2026	HK\$0.820	39,520,000
Share Option 2	12 October 2016	12 October 2017 to 11 October 2026	HK\$0.822	27,840,000
Share Option 3	31 March 2017	31 March 2018 to 30 March 2027	HK\$0.720	1,000,000
Share Option 4	18 April 2018	18 April 2019 to 17 April 2028	HK\$0.620	10,280,000

During the six months ended 30 June 2018, no share option was cancelled or exercised. A total of 18,560,000 share options were lapsed.

The particulars of the changes of the share options under the scheme during the six months ended 30 June 2018 are as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	At 1 January 2018	Granted during the period	Lapsed during the period	At 30 June 2018
Directors (Note)	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.820	37,120,000	-	(9,280,000)	27,840,000
Employees	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.820	1,400,000	-	-	1,400,000
Directors	12 October 2016	1 year	12 October 2017 to 11 October 2026	0.822	27,840,000	-	(9,280,000)	18,560,000
Employee	31 March 2017	1 year	31 March 2018 to 30 March 2027	0.720	1,000,000	-	-	1,000,000
Directors	18 April 2018	1 year	18 April 2019 to 17 April 2028	0.620	-	9,280,000	-	9,280,000
Employee	18 April 2018	1 year	18 April 2019 to 17 April 2028	0.620	-	1,000,000	-	1,000,000
					67,360,000	10,280,000	(18,560,000)	59,080,000
Exercisable at the end of the period								59,080,000
Weighted average exercise price (HK\$)					0.819	0.620	0.821	0.784

20. Equity-settled share-based transactions (continued)***Equity-settled share option scheme (continued)***

Note:

These options were granted to Mr. Sheng Ruzhi who has resigned as a non-executive Director of the company with effect from 31 August 2017. Afterwards, he holds the position as a consultant within the Group.

The particulars of the changes of the share options under the scheme during the six months ended 30 June 2017 are as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	At 1 January 2017	Granted during the period	Lapsed during the period	At 30 June 2017
Directors (Note)	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.820	37,120,000	-	-	37,120,000
Employees	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.820	2,400,000	-	-	2,400,000
Directors	12 October 2016	1 year	12 October 2017 to 11 October 2026	0.822	27,840,000	-	-	27,840,000
Employee	31 March 2017	1 year	31 March 2018 to 30 March 2027	0.720	-	1,000,000	-	1,000,000
					67,360,000	1,000,000	-	68,360,000
Exercisable at the end of the period								68,360,000
Weighted average exercise price (HK\$)					0.821	0.720	-	0.819

Note:

These options were granted to Mr. Sheng Ruzhi who has resigned as a non-executive Director of the company with effect from 31 August 2017. Afterwards, he holds the position as a consultant within the Group.

20. Equity-settled share-based transactions *(continued)***Equity-settled share option scheme** *(continued)*

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 values of options granted during the six months ended 30 June 2018 and for the year ended 31 December 2017 were 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	22 January 2016	12 October 2016	31 March 2017	18 April 2018
Fair value at measurement date (HK\$)	0.294	0.427	0.324	0.324
Share price (HK\$)	0.720	0.780	0.720	0.620
Exercise price (HK\$)	0.820	0.822	0.720	0.620
Expected volatility (%)	56.121	70.550	73.161	57.105
Risk-free interest rate (%)	1.590	1.105	1.666	2.101
Expected life (year)	10.000	10.000	10.000	10.000
Expected dividends (%)	0.000	0.000	0.000	0.000

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 six months ended 30 June 2018, the total fair value of the share options granted was HK\$3,332,995 (30 June 2017: HK\$324,309).

21. Fair value measurement of financial instruments

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 directors consider that the carrying amounts of financial assets and financial liabilities recorded in the condensed consolidated financial statements approximate to their fair values.

21. Fair value measurement of financial instruments (continued)

Fair value measurements recognised in the condensed consolidated statement of financial position

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.

During the six months ended 30 June 2018 and 2017, there were no transfers of fair value measurement between Levels 1 and 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 periods.

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as at 30 June 2018 and 31 December 2017:

	Level 1 <i>HK\$</i>	Level 2 <i>HK\$</i>	Level 3 <i>HK\$</i>	Total <i>HK\$</i>
As at 30 June 2018 (unaudited)				
Financial assets at fair value through other comprehensive income	–	–	416,841,311	416,841,311
As at 31 December 2017 (audited)				
Available-for-sale investments	–	–	357,595,055	357,595,055

Fair value of the Group's financial assets at fair value through other comprehensive income and available-for-sale investments, which are categorised as Level 3, have been determined by independent, professionally qualified valuers. The significant inputs and assumptions are developed in close consultation with management. The valuation report and fair value changes are reviewed by the directors at each reporting date.

21. Fair value measurement of financial instruments (continued)

Valuation techniques and inputs used in Level 3 fair value measurements

The following table presents the valuation techniques and key inputs that were used to determine the fair value of non-current assets classified as financial assets at fair value through other comprehensive income and available-for-sale investments categorised under Level 3 of the fair value hierarchy:

Description	Fair value HK\$ million	Valuation technique	Unobservable inputs ^(a)	Range of Unobservable inputs	Relationship of unobservable inputs to fair value
As at 30 June 2018 (unaudited)					
18% equity interest in More Cash Limited	73.0	Income approach – discount cash flow	Discount rate	9.77%	The higher the rate, the lower the fair value
7.88% equity interest in Sino Partner Global Limited	136.0	Income approach – discount cash flow	Discounted rate with discount for lack of marketability ("DLOM")	16% for supercars and 25% for electronic vehicles with DLOM:25%	The higher the rate, the lower the fair value
14% equity interest in Suzhou Ziguang	145.4	Asset approach	Net asset value ("NAV") with DLOM and discount for lack of control ("DLOC")	NAV = RMB130,532,700 DLOM = 1% DLOC = 1%	The higher the NAV, the lower the DLOM and DLOC, the higher the fair value
8.33% equity interest in the National Innovation Center	59.3	Asset approach	Net asset value ("NAV")	NAV = RMB50,000,000	The higher the NAV, the higher the fair value
Gap fund with TusStar and MICHIGAN	0.8	Asset approach	Market value	Market value = USD71,144	The higher the market value, the higher the fair value
9.80% equity interest in 蘇州優達斯 汽車科技有限公司	1.2	Income approach	Equity value with DLOM and DLOC	Equity value = RMB12,238,800 DLOM = 16.8% DLOC = 21.4%	The higher the equity value, the lower the DLOM and DLOC, the higher the fair value
7.92% equity interest in 四川智華盾盾 電子科技有限公司	1.2	Income approach	Equity value with DLOM and DLOC	Equity value = RMB14,413,025 DLOM = 16.8% DLOC = 21.4%	The higher the equity value, the lower the DLOM and DLOC, the higher the fair value
As at 31 December 2017 (audited)					
18% equity interest in More Cash Limited	73.0	Income approach – discount cash flow	Discount rate	9.79%	The higher the rate, the lower the fair value
7.88% equity interest in Sino Partner Global Limited	136.0	Market approach	Transactions price of Sino Partner Global Limited's stock	HK\$405,405 – HK\$410,959 per share	The higher the market value, the higher the fair value
14% equity interest in Suzhou Ziguang	145.4	Asset approach	Net asset value ("NAV") with DLOM and DLOC	NAV = RMB133,097,224 DLOM = 2% DLOC = 2%	The higher the NAV, the lower the DLOM and DLOC, the higher the fair value
Gap fund with TusStar and MICHIGAN	0.8	Asset approach	Market value	Market value = USD100,000	The higher the market value, the higher the fair value
9.80% equity interest in 蘇州優達斯 汽車科技有限公司	1.2	Income approach	Equity value with DLOM and DLOC	Equity value = RMB10,307,269 DLOM = 16.8% DLOC = 21.4%	The higher the equity value, the lower the DLOM and DLOC, the higher the fair value
7.92% equity interest in 四川智華盾盾 電子科技有限公司	1.2	Income approach	Equity value with DLOM and DLOC	Equity value = RMB12,762,995 DLOM = 16.8% DLOC = 21.4%	The higher the equity value, the lower the DLOM and DLOC, the higher the fair value

Note: There were no significant inter-relationships between unobservable inputs.

22. Events after the reporting period

- (a) On 12 July 2018, the Company, Telit Communications PLC and Telit Wireless Solutions S.R.L (the "Vendors") and Telit Automotive Solutions N.V (the "Target Company") entered into an acquisition agreement, pursuant to which the Company conditionally agreed to buy and the Vendors conditionally agreed to sell all the issued shares of the Target Company at the aggregate consideration of US\$105.0 million (equivalent to approximately HK\$824.25 million), subject to adjustments with reference to the aggregate cash, debt and working capital of the target group at completion and the transfer costs. The proposed acquisition is subject to, among others, obtaining approval from shareholders of the Company at the extraordinary general meeting.

As at the date of this report, the abovementioned acquisition agreement has not been completed. Details of the acquisition were set out in the announcement of the Company dated 12 July 2018.

- (b) On 17 August 2018, nine other leading companies, including OEMs, mobile carriers and others, joined the Center as shareholders. The contract parties agree to each contribute RMB50.0 million in cash and jointly establish the Center, and shall each hold approximately 4.76% of the Center's equity interest. The Center is expected to be recognised by Ministry of Industry and Information Technology of the PRC as the National Innovation Center after its establishment as a legal entity.
- (c) On 28 August 2018, the Company, through an indirect wholly-owned subsidiary, entered into a Shareholders' agreement with joint venture partners in respect of the formation of a joint venture company (the "JV Company") in Germany. The JV Company will be principally engaged in the business of development, production and international marketing of automotive millimeter wave radar sensor components and sensor system for environment recognition, distance and position measuring, measuring of objects and performance of related services.

As at the date of this report, the Company has not contribute any cash contribution into the capital reserves of the joint venture capital. Details of the formation of joint venture were set out in the announcement of the Company dated 5 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the production and sale of advanced driving assistance system (“ADAS”) products and other automotive components, car-carried purifiers, car trading and provision of financing service for leasing motor vehicles and equipment. ADAS products include the around view monitoring, which generates real-time top-view images by processing of multiple-area images by the electronic control unit, and provides more intuitive auxiliary driving information and reliable blind area display tools, lane departure warning, which has straight road and curved road measurement ability and high level distance measurement ability, forward collision warning, by the high degree of mastery in core technologies of hardware design, image recognition, alarm algorithm and other aspects to conduct differentiated and customised development according to different customer needs, pedestrian detection, night vision, blind spot detection, driver fatigue monitoring and other ADAS-related technologies.

Business Outlook and Prospects

Looking forward to the second half of this year, a continuous growth in smart mobility industries is expected globally. The Group believes the development of information and artificial intelligent technology will continue to reshape the automobile industry.

The Group expects to achieve significant business development in its cloud control and vehicle connectivity business:

- On 23 May 2018, the Group partnered with Shanghai International Automobile City to build the pilot base of “National Intelligent Connected Vehicle Cloud Control Platform” in Shanghai. The Group is the pioneer in developing cloud control technology, which serves to connect all vehicles, infrastructure, pedestrians into a holistic mobility system, facilitate intelligent data exchange among mobility system, distribute environment perception and coordinate decision-making and motion control, and provide big data and cloud artificial intelligence services. The Group plans to expand partnership with mobile carriers, high-precision positioning service providers, ITS companies to jointly promote “National Intelligent Connected Vehicle Cloud Control Platform”, and develop pilot bases in other strategically important regions, such as Beijing, Xiong’an, Guangdong and Fujian in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Outlook and Prospects *(continued)*

- In addition, as announced on 12 July 2018, the Group entered into an agreement with Telit Communications PLC and Telit Wireless Solutions S.R.L and Telit Automotive Solutions N.V to acquire its auto-grade wireless communication module business. For the first half of 2018, such business has generated revenue of approximately US\$34.2 million (equivalent to approximately HK\$268.5 million). As of 31 March 2018, such business had a total sales backlog of over HK\$3.0 billion for delivery in 2018 to 2020. Such business is expected to have significant synergies with our other businesses, and will significantly expand our global footprint and improve our overall business and financial performance. The Group plans to finance this acquisition through a combination of existing internal resources, equity placement and term loans from banks in an aggregate principal amount of not less than US\$30 million (equivalent to approximately HK\$235.5 million), and expects to complete this acquisition by the end of 2018.

The Group's ADAS business is expected to have a sustainable growth:

- As of 30 June 2018, the Group had a total sales backlog of ADAS products of over HK\$1.8 billion for delivery in 2018 to 2020.
- We expect new ADAS products will generate over RMB10.0 million revenue in the second half of 2018.
- The Group will continue to invest into research and development of latest computer vision technologies to provide customers with more comprehensive computer vision-based driver assistance solutions, such as APA ("Advanced Parking Assist"), FCW ("Forward Collision Warning"), LKA ("Lane Keeping Assist"), etc.
- As announced on 5 September 2018, the Group plans to found Kymati GmbH. in Germany in order to tap into the vast talent pool of experts in millimeter wave radar for auto use in Germany. Kymati GmbH. will serve as a tier-2 supplier of millimeter wave radar module to the Group's ADAS business and allow the Group to better capitalise on the AEB ("Automatic Emergency Brake") market opportunities in China, in particular in the commercial vehicle segment where compulsory adoption is required.

On 5 January 2018, the consultation paper of China's national strategy on intelligent connected vehicle was publicly announced by the National Development and Reform Commission ("NDRC"). The Group expects such national strategic initiatives will begin to formalise and materialise in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Outlook and Prospects *(continued)*

In addition, on 9 March 2018, the Group co-founded the Center under the supervision of the Ministry of Industry and Information, along with some leading OEMs. As announced on 17 August 2018, nine other leading companies, including OEMs, mobile carrier and others, joined the Center as shareholders.

References are made to our 2017 Interim Report and 2017 Annual Report, although Suzhou Yadu Cloud Technology Co. Limited (“Yadu Cloud”) has started to bring in revenue in the second half of 2017, the sales of the car-carried purifiers were lower than the original budget. And per capital increase and subscription agreement signed on 30 June 2016, Suzhou Yadu Environmental Protection Technology Co., Limited* (蘇州亞都環保科技有限公司) has undertaken that Yadu Cloud shall achieve business operational target of net profit after taxation in an aggregate of RMB13,000,000 for the period from which the registered capital was in place up to 18 months. Profit guarantee period started from 1 July 2017 to 31 December 2018. Actual unaudited profit after taxation up to 30 June 2018 was RMB496,677.25.

The Company will from time to time monitor the business performance of Yadu Cloud and adjust our strategy in the car-carried purifiers business as and when appropriate.

Leveraging its shareholder background of Tsinghua University, the Group has been actively involved in the above national strategic initiatives on intelligent connected vehicle. The Group will continue to ride on such national strategic initiatives, drive core technologies innovation of intelligent connected vehicle and strive to become the enabler of the future smart mobility system.

Financial Review

For the six months ended 30 June 2018, the Group recorded revenue of approximately HK\$225.1 million, while it was approximately HK\$84.2 million in the same period of last year. The increase in revenue was mainly due to the expansion into the ADAS products via the acquisition of Suzhou Zhihua Group last year.

The gross profit for the six months ended 30 June 2018 was approximately HK\$22.2 million while it was approximately HK\$4.9 million in the same period of last year, representing an increase of approximately 356.1%. The Group’s gross profit has grown in tandem with expanded sales.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

ADAS Products and other automotive components

On a segmental basis, a majority of revenue for the six months ended 30 June 2018 was derived from sale of ADAS products and other automotive components. Revenue from sale of ADAS products and other automotive components was approximately HK\$172.5 million in the first six months of 2018 while it was HK\$Nil as compared to the same period in 2017 since the Group started to consolidate Suzhou Zhihua Group in December 2017 via the acquisition of Suzhou Zhihua Group.

Car-carried Purifiers

There was no revenue for the segment of car-carried purifiers during the six months ended 30 June 2018 as well as the same period in 2017.

Car Trading

The revenue of the Group's car trading business decreased by approximately 94.3% to approximately HK\$2.1 million (corresponding period in 2017: approximately HK\$37.6 million) primarily due to decrease of car trading in the PRC.

Finance Lease of Motor Vehicles and Equipment

The revenue of the Group's finance lease of motor vehicles and equipment business maintained at similar level at approximately HK\$50.4 million (corresponding period in 2017: approximately HK\$46.6 million).

Other Loss

During the six months ended 30 June 2018, the Group's other loss maintained at similar level at approximately HK\$0.5 million (corresponding period in 2017: approximately HK\$0.1 million).

Research and Development Expenses

During the six months ended 30 June 2018, the research and development expenses of the Group were approximately HK\$7.6 million, while it was HK\$Nil in the same period of last year. This was mainly due to the acquisition of Suzhou Zhihua Group in December 2017.

Selling and Distribution Expenses

During the six months ended 30 June 2018, the selling and distribution expenses of the Group were approximately HK\$5.8 million, while it was approximately HK\$1.0 million in the same period of last year. Such expenses primarily consisted of staff remuneration, travelling and transportation costs, marketing expenses.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review *(continued)*

Administrative Expenses

During the six months ended 30 June 2018, the administrative expenses of the Group were approximately HK\$41.2 million, while it was approximately HK\$32.1 million in the same period of last year. This was mainly due to the acquisition of Suzhou Zhihua Group and the increase in number of employees in TUS Cloud Control (Beijing) Technology Limited (啟迪雲控(北京)科技有限公司) (“TUS Cloud Control”) which is an indirect subsidiary of the Company.

Finance Cost

During the current period under review, the Group recorded finance costs of approximately HK\$23.4 million, while it was approximately HK\$5.3 million during the first half of 2017. The increase was mainly due to the increase in imputed interest on convertible bonds from approximately HK\$4.7 million in the first half of 2017 to approximately HK\$17.8 million during the current period under review.

Share of Loss of an Associate

During the six months ended 30 June 2018, the Group recorded share of loss of an associate of approximately HK\$1.0 million due to loss realised by the associate, while it was approximately HK\$1.6 million in the same period of last year.

Share of Loss of a Joint Venture

During the six months ended 30 June 2018, the Group recorded share of loss of a joint venture of approximately HK\$0.8 million due to loss realised by the joint venture. There was no such loss in the same period in 2017.

Loss for the period

As a result of the above factors, loss for the six months ended 30 June 2018 increased to approximately HK\$55.7 million (corresponding period in 2017: approximately HK\$34.8 million) and the Group recorded approximately HK\$49.6 million loss attributable to owners of the Company, while it was approximately HK\$34.5 million in the same period of last year. The increase in the loss recorded in the current period under review was mainly due to increase in research and development expenses and administrative expenses and imputed interest expenses arising from convertible bonds which was partially offset by increase in gross profit in the current period under review.

Basic Loss per Share

The Group recorded basic loss per share of HK\$5.26 cents for the six months ended 30 June 2018 (corresponding period in 2017: HK\$3.72 cents).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)***Use of Net Proceeds from Partial Completion of the Allotment and Issue of shares**

The net proceeds from the partial completion of the allotment and issue of shares (after deducting all relevant costs and expenses of the issue of shares) are approximately HK\$108.3 million, which were intended to be utilised for the Company's strategic investment in and possible mergers and acquisitions of investment targets and working capital and general corporate purpose. As at 30 June 2018 and as at the date of this report, the net proceeds had been used for the following purposes:

	Purposes of the net proceeds	Net proceeds (Note 1) <i>HK\$ million</i>	Utilised during the Period (Note 2) <i>HK\$ million</i>	Not yet utilised or not completed (Note 2) <i>HK\$ million</i>	Expected time frame of the net proceeds
1	Capital contribution to TUS Cloud Control	62.5	35.9	26.6	Fourth quarter of 2018
2	Settlement of the consideration in relation to the acquisition of 3.876% equity interest in Suzhou Zhihua	19.4	19.4	–	N/A
3	Capital injection to Suzhou Zhihua	37.5	37.5	–	N/A
4	Possible mergers and acquisitions of investment target(s) with complementary core technologies in the smart mobility and related sector in automobile industry	27.1	–	27.1	Fourth quarter of 2018
5	Working capital and general corporate purpose	15.5	15.5	–	N/A
		<u>162.0</u>	<u>108.3</u>	<u>53.7</u>	

Note:

- 1) Reference is made to the circular dated 23 May 2018; and
- 2) Reference is made to the announcement dated 21 June 2018. Net proceeds from partial completion amounted to HK\$108.3 million all of which was utilised during the six months ended 30 June 2018; additional net proceeds upon completion is expected to be HK\$53.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Financial Resources

As at 30 June 2018, the Group reported total assets of approximately HK\$1,425.7 million (31 December 2017: approximately HK\$1,243.1 million), which were financed by total liabilities of approximately HK\$826.6 million (31 December 2017: approximately HK\$710.0 million) and equity of approximately HK\$599.1 million (31 December 2017: approximately HK\$533.0 million). The net asset value was approximately HK\$599.1 million (31 December 2017: approximately HK\$533.0 million). The net asset value per share amounted to approximately HK\$0.49 per share as compared to approximately HK\$0.57 per share as at 31 December 2017.

As at 30 June 2018, the Group had cash and cash equivalents of approximately HK\$203.1 million (31 December 2017: approximately HK\$126.6 million). The increase in cash and cash equivalent was mainly due to partial completion of the allotment and issue of shares to subscribers for a total of 295,000,000 subscription shares at the subscription price of HK\$0.537 per subscription share during the current period under review, details of which are set out in Note 18(c) of “Notes to the Condensed Consolidated Financial Statements” section in this report.

The Group monitors its capital structure on the basis of a gearing ratio which is defined as the ratio of total liabilities to total assets. The gearing ratio as at 30 June 2018 was 58.0% (31 December 2017: 57.1%).

The Group recorded a net loss of approximately HK\$55.7 million for the period ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$34.8 million) and any obligations arising from the acquisition as discussed in Note 22(a) in this report may have a considerable impact on the liquidity position of the Group. Nevertheless, the management of the Company considers the liquidity position of the Group is sufficient to operate as a going concern in the foreseeable future as the Group maintains a healthy financial position as of 30 June 2018 with cash and cash equivalents, net current assets, and net assets value of approximately HK\$203.1 million, HK\$226.2 million, and HK\$599.1 million respectively. In addition, the management of the Company has taken the following steps to further strengthen the Group’s financial position:

- 1) Reference is made to the announcement of the Company dated 12 July 2018. The Company has engaged in discussions with several banks on potential term loan financing in the aggregate principal amount of US\$30 million to US\$35 million (equivalent to approximately HK\$235.5 million to HK\$274.8 million respectively);

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Financial Resources *(continued)*

- 2) The Company is contemplating an equity financing of not more than US\$50 million (equivalent to approximately HK\$392.5 million) with the shareholder's support as evidenced by the irrevocable undertaking given by the relevant shareholders to finance the acquisition; and
- 3) The Group has taken measures to tighten cost controls over production costs and expenses with the aim of attaining profitable and positive cash flow operations.

Based on the measures as outlined above, the management of the Company considers that the Group would be able to generate sufficient funds to meet its financial obligations as and when they fall due in the foreseeable future and the Group has maintained a strong and healthy liquidity position as of the date of this report.

Capital Structure

The Group had short-term borrowings of approximately HK\$146.9 million which included a bank loan with principal amount of approximately HK\$95.1 million with a fixed interest rate of 4.75% – 5.66%, and other loans of approximately HK\$51.8 million which were obtained from independent third parties with fixed interest rates of 4.4% – 10.0% and were not yet matured on 30 June 2018 (31 December 2017: bank loans of approximately HK\$68.5 million at interest rates of 4.75% – 5.66%, other loans of approximately HK\$15.5 million at interest rates of 4.4% – 8.5%). The short-term borrowings were primarily used to finance short-term cash flows for the operations of the Group. Approximately HK\$95.1 million of the bank loans were denominated in Renminbi as at 30 June 2018 (31 December 2017: approximately HK\$68.5 million). As for the other loans, approximately HK\$40.6 million, HK\$5.3 million and HK\$5.9 million were denominated in US dollar, Hong Kong dollar and Renminbi respectively as at 30 June 2018 (31 December 2017: approximately HK\$5.0 million, HK\$4.5 million and HK\$6.0 million respectively).

Treasury Policy

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. However, in order to execute the strategies of the Group, the Directors will continue to monitor both the equity and debt capital markets to replenish funds, as and when appropriate, for future expansion and creation of shareholders' value. 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Treasury Policy *(continued)*

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi, Hong Kong dollar and US dollar. 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 30 June 2018, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Charge of Group Assets

As at 30 June 2018, approximately RMB40.0 million (31 December 2017: RMB40.0 million) financial assistance provided by the Company to Suzhou Zhihua was pledged with bank deposits amounting to approximately RMB42.4 million (31 December 2017: approximately RMB42.4 million). Bills payables were also pledged with bank deposits and bills receivables amounting to approximately HK\$0.6 million and HK\$13.2 million respectively (31 December 2017: approximately HK\$8.7 million and HK\$16.9 million respectively). Save as disclosed herein, the Group had no pledge of assets as at 30 June 2018.

Contingent Liabilities

As at 30 June 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

Material Acquisitions and Disposals

Joint Establishment of the National Innovation Center of Intelligent Connected Vehicles

On 9 March 2018 and 14 March 2018, TUS Cloud Control and certain leading enterprises of the industry (including automotive OEMs (original equipment manufacturers) and mobility service providers) jointly entered into a formal agreement, pursuant to which, the contract parties agreed to each contribute RMB50.0 million in cash and jointly establish the Center, and they shall each hold approximately 8.33% of the Center's equity interest. The Center is expected to be recognised by Ministry of Industry and Information Technology of the PRC as the National Innovation Center of Intelligent Connected Vehicles after its establishment as a legal entity.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Material Acquisitions and Disposals *(continued)*

Further Acquisition of Equity Interests in Suzhou Zhihua

On 20 March 2018, Suzhou Qiyizhi Management Enterprise Limited (蘇州企億智企業管理有限公司) (“Suzhou Qiyizhi”), a subsidiary of the Company, entered into an equity transfer agreement with Suzhou Huaye Automobile Technology Development Company Limited (“Suzhou Huaye”) (蘇州華業汽車科技發展有限公司) and pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 4.2636% equity interests in Suzhou Zhihua from Suzhou Huaye at a consideration of RMB17.0 million.

On 4 May 2018, Suzhou Qiyizhi entered into an equity transfer agreement with Suzhou Wujiang Venture Capital Co., Ltd (蘇州市吳江創業投資有限公司) (“Wujiang VC”) and pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 3.876% equity interests in Suzhou Zhihua from Wujiang VC at a consideration of RMB15,504,000.

As at the date of this report, all the abovementioned acquisitions have been completed. The Company currently indirectly holds an aggregate of 44.7538% equity interests in Suzhou Zhihua Group. In the event that the Company fully exercises the option granted by Suzhou Zhihua in favour of Suzhou Qiyizhi, it is expected that the Company will then indirectly hold an aggregate of approximately 51.5304% equity interests in Suzhou Zhihua Group.

Future plans for material investments

References are made to the announcement of the Company dated 12 July 2018 and 5 September 2018 in relation to the acquisition of auto-grade wireless communication module business and formation of JV Company respectively. The acquisition and formation of JV Company will be financed by the Group’s internal resources, possible debt financing, and equity financing. Details are as follows:

Business	Consideration	Source of funding	Expected time to despatch circular	Expected time of completion
Acquisition of auto-grade wireless communication module	US\$105 million	Internal resources, debt financing and equity financing not more than US\$50 million	31 October 2018	Fourth quarter of 2018
Formation of JV Company in Germany	EUR2.88 million	Internal resources, debt financing and equity financing	Not applicable	Fourth quarter of 2018

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Significant Investment

Save as disclosed herein, there was no significant investment during the period under review.

Foreign Exchange Exposure

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the six months ended 30 June 2018, the Group did not carry out any hedging activity against foreign currency risk (31 December 2017: Nil). Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Employees and Remuneration Policy

As at 30 June 2018, the Group employed 392 staff in the PRC and Hong Kong (31 December 2017: 373). Remuneration of employees including Directors' emoluments was approximately HK\$35.3 million for the six months period under review as compared with that of approximately HK\$20.5 million for the corresponding period of the preceding financial year.

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 of the employees 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 Board and depend upon the performance of the Group.

Events after the Reporting Period

Details of the events after the reporting period of the Group are disclosed in Note 22 of "Notes to the Condensed Consolidated Financial Statements" section in this report.

Save as disclosed herein, no other subsequent events occurred after 30 June 2018, which may have a significant effect on the assets and liabilities of future operations of the Group.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, 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:

Name of director	Capacity	Registered shareholders	Underlying interest (note 1)	Approximate percentage of shareholding (note 2)
Ma Chi Kong Karl	Beneficial Owner	210,718,000	109,280,000	26.16%
Du Peng	Beneficial Owner	–	13,920,000	1.14%
Shen Xiao	Beneficial Owner	–	123,773,894	10.12%
Cheung Joanna Wai Sze (Note 3)	Beneficial Owner	–	9,280,000	0.76%
Tsang Ling Biu, Gilbert	Beneficial Owner	–	4,640,000	0.38%
Sheng Ruzhi (Note 4)	Beneficial Owner	1,872,000	4,640,000	0.53%

Note:

1. These underlying interests represent the shares options granted to Mr. Ma Chi Kong Karl, Mr. Du Peng, Mr. Shen Xiao, Ms. Cheung Joanna Wai Sze, Mr. Tsang Ling Biu, Gilbert and Mr. Sheng Ruzhi pursuant to the Share Option Scheme, and also an interest in the long position of 100,000,000 and 109,853,894 shares of the Company held by Mr. Ma Chi Kong Karl and Mr. Shen Xiao respectively. Mr. Shen Xiao has an interest in the long position of 109,853,894 shares underlying the HK\$300,000,000 6% coupon convertible bond due 2019 issued by the Company on 9 June 2017.
2. This represents the approximate percentage of the aggregate long positions in shares of the Company to the total issued shares of the Company as at 30 June 2018.
3. Ms. Cheung Joanna Wai Sze has resigned as an executive director of the Company with effect from 23 July 2018.
4. Mr. Sheng Ruzhi has resigned as a non-executive director of the Company with effect from 31 August 2017.

OTHER INFORMATION *(continued)***DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)*

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.

SHARE OPTION SCHEME

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 5 June 2017, 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 5 June 2017, i.e. 92,818,488 shares. A summary of the 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 30 June 2018 was 82,538,488 shares which represented approximately 6.75% of the issued share capital of the Company as at 30 June 2018.

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 shareholders as a whole.

On 18 April 2018, the Company granted a total of 10,280,000 share options to Directors and senior management of the Group, details of which were set out in the announcement of the Company published on even date.

SHARE OPTION SCHEME *(continued)*

During the six months ended 30 June 2018, 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 below:

Name	Date of grant	Exercisable period	Number of share options					As at 30 June 2018	Exercise price per share
			As at 1 January 2018	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period		
Existing Directors									
Ma Chi Kong Karl	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	-	-	-	-	9,280,000	0.822
Du Peng	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	-	-	-	-	9,280,000	0.820
	18 April 2018	18 April 2019 – 17 April 2028	-	4,640,000	-	-	-	4,640,000	0.620
Shen Xiao	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	-	-	-	-	9,280,000	0.822
	18 April 2018	18 April 2019 – 17 April 2028	-	4,640,000	-	-	-	4,640,000	0.620
Woo Kar Tung Raymond (Resigned on 7 June 2018)	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	-	-	-	(9,280,000)	-	0.820
Cheung Joanna Wai Sze (Note)	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	-	-	-	-	9,280,000	0.820
Tsang Ling Bui, Gilbert	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	-	-	-	-	4,640,000	0.820
Yang Ming (Resigned on 24 June 2018)	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	-	-	-	(9,280,000)	-	0.822
Former Director									
Sheng Ruzhi (Resigned on 31 August 2017)	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	-	-	-	-	4,640,000	0.820
Other eligible participants									
Employees	22 January 2016	22 January 2017 – 21 January 2026	1,400,000	-	-	-	-	1,400,000	0.820
	31 March 2017	31 March 2018 – 30 March 2027	1,000,000	-	-	-	-	1,000,000	0.720
	18 April 2018	18 April 2019 – 17 April 2028	-	1,000,000	-	-	-	1,000,000	0.620
			67,360,000	10,280,000	-	-	(18,560,000)	59,080,000	

Note: Ms. Cheung Joanna Wai Sze has resigned as an executive director of the Company with effect from 23 July 2018.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2018, the following persons (other than chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Note	Capacity	Number of ordinary shares of the Company held	Approximately percentage of total shares of the Company (Note 8)
Tuspark Venture Investment Ltd. ("Tuspark Venture")	1 and 3	Beneficial owner	322,344,696	26.35%
Tus-Holdings Co., Ltd. ("Tus-Holdings")	1	Interests of controlled corporation	322,344,696	26.35%
Tsinghua Holdings Co., Ltd. ("Tsinghua Holdings")	2	Interests of controlled corporation	322,344,696	26.35%
Beijing Baijun Investment Company Limited ("Beijing Baijun")	2	Interests of controlled corporation	322,344,696	26.35%
Wang Jiwu	2	Interests of controlled corporation	322,344,696	26.35%
Tsinghua University	2	Interests of controlled corporation	322,344,696	26.35%
Ma Chi Kong Karl	4	Beneficial Owner	100,000,000	8.18%
C. K. Pacific Limited ("C. K. Pacific")	5	Beneficial Owner	42,986,425	3.51%
Lucky Target Limited ("Lucky Target")	5	Beneficial Owner	26,018,099	2.13%
CM Securities Investment Limited ("CMSI")	6	Beneficial Owner	109,853,894	8.98%
China Minsheng Financial Holding Corporation Limited ("CMFHCL")	6	Interests of controlled corporation	109,853,894	8.98%
China Minsheng Investment Corporation Limited	6	Interests of controlled corporation	109,853,894	8.98%
Munsun Smart Mobility Fund LP ("Munsun Smart")	7	Beneficial Owner	109,853,894	8.98%

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

(continued)

Notes:

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. Tuspark Venture is beneficially interested in the convertible bond in the principal amount of HK\$100,000,000 which is convertible into a maximum of 109,853,894 shares at the initial conversion price of HK\$0.9103 per share.
4. Mr. Ma Chi Kong Karl is beneficially interested in the convertible bond in the principal amount of HK\$53,700,000 which is convertible into a maximum of 100,000,000 shares at the initial conversion price of HK\$0.537 per share.
5. C. K. Pacific and Lucky Target is beneficially interested in the convertible bond in the principal amount of HK\$38,000,000 and HK\$23,000,000 respectively, which is convertible into a maximum of 69,004,524 shares at the initial conversion price of HK\$0.884 per share.
6. CMSI is beneficially interested in the convertible bond in the principal amount of HK\$100,000,000 which is convertible into a maximum of 109,853,894 shares at the initial conversion price of HK\$0.9103 per share.

The entire issued share capital of CMSI is beneficially owned by CMFHCL whose shares are listed on main board of the Stock Exchange (Stock Code: 245).

CMFHCL is held by CMI Financial Holding Company Limited, which is wholly owned by Minsheng (Shanghai) Assets Management Company Limited, which is in turn wholly owned by China Minsheng Investment Corporation Limited.

7. Munsun Smart is beneficially interested in the convertible bond in the principal amount of HK\$100,000,000 which is convertible into a maximum of 109,853,894 shares at the initial conversion price of HK\$0.9103 per share.
8. The approximate percentage of shareholding is calculated based on 1,223,184,888 shares in issue as at 30 June 2018.

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.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

(continued)

Short positions in underlying shares of the Company *(continued)*

Save as disclosed above, as at 30 June 2018, the Directors or chief executive 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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.

DIRECTORS' INTERESTS IN CONTRACTS

During the six months ended 30 June 2018, no contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had material interest, whether directly or indirectly, subsisted at the end of the period or any time during the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

CORPORATE GOVERNANCE CODE

Save as mentioned below, the Company has complied with all of the code provisions (and the revised code provision on risk management) of the Corporate Governance Code and Corporate Governance Report (“CG Code”) as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2018.

Chairman and Chief Executive Officer

Under code Provision A.2.1, the roles 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. The role of the chief executive officer 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 interests of the shareholders of the Company as a whole.

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 system of the Group.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Poon Chiu Kwok, Hon. Quat Elizabeth *(JP)* and Mr. Wong Yuk Lun, Alan and a non-executive Director, Mr. Tsang Ling Biu, Gilbert. Mr. Poon Chiu Kwok is the chairman of the Audit Committee.

On 24 June 2018, Mr. Chen Jin has resigned as an independent non-executive Director of the Company and member of the Audit Committee.

The Audit Committee has reviewed the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018. The Audit Committee has also reviewed this interim report and has provided advice and comments thereon to the Board. The Audit Committee is of the opinion that this interim report complied with applicable accounting standards, the Listing Rules, and that adequate disclosures have been made.

CORPORATE GOVERNANCE CODE *(continued)*

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 an executive Director, namely Mr. Ma Chi Kong Karl and three independent non-executive Directors, namely, Mr. Poon Chiu Kwok, Hon. Quat Elizabeth *(JP)* and Mr. Wong Yuk Lun, Alan. Mr. Poon Chiu Kwok is the chairman of the Remuneration Committee.

On 24 June 2018, Mr. Yang Ming has resigned as a non-executive Director of the Company and member of the Remuneration Committee and Mr. Chen Jin has resigned as an independent non-executive Director of the Company and member of the Remuneration Committee.

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 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.

The Nomination Committee currently comprises two executive Directors, namely Mr. Ma Chi Kong Karl and Mr. Shen Xiao and three independent non-executive Directors, namely, Mr. Poon Chiu Kwok, Hon. Quat Elizabeth *(JP)* and Mr. Wong Yuk Lun, Alan. Mr. Ma Chi Kong Karl is the chairman of the Nomination Committee.

On 24 June 2018, Mr. Chen Jin has resigned as an independent non-executive Director of the Company and member of the Nomination Committee.

CORPORATE GOVERNANCE CODE *(continued)*

Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors of the Company adopted by the Company throughout the six months ended 30 June 2018.

Board Composition

As at the date of this report, the Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. The non-executive Directors (including the independent non-executive Directors) have a wide range of experience and calibre and could provide valuable advice to the Board on strategic development and resource management of the Group.

On 29 January 2018, Mr. Yang Ming was redesignated from an executive Director to a non-executive Director of the Company.

On 12 February 2018, Mr. Du Peng, an executive Director, has been appointed as the vice chairman of the Company.

On 27 March 2018, Mr. Qin Zhiguang has been appointed as a non-executive Director of the Company.

On 7 June 2018, Mr. Woo Kar Tung Raymond has resigned as an executive Director and the chief financial officer of the Company.

On 24 June 2018, Mr. Yang Ming and Mr. Chen Jin have resigned as a non-executive Director and independent non-executive Director of the Company, respectively.

On 23 July 2018, Ms. Cheung Joanna Wai Sze has resigned as an executive Director of the Company.

Save for the above, as at the date of this report, there was no change in the composition of the Board subsequent to the publication of the annual report of the Company for the year ended 31 December 2017.

CORPORATE GOVERNANCE CODE *(continued)*

Changes in Information of Directors

Pursuant to Rule 13.51(B) of the Listing Rules, the changes to information of Directors subsequent to the date of the annual report of the Company for the year ended 31 December 2017 are set out below:

- (1) Mr. Poon Chiu Kwok has resigned as a non-executive Director of Chong Kin Group Holdings Limited (Stock Code: 1609) on 6 June 2018.
- (2) Mr. Tsang Ling Bui, Gilbert has been appointed as an independent non-executive Director of Hingtex Holdings Limited (Stock Code: 1968) on 19 June 2018.
- (3) Mr. Shen Xiao has resigned as an independent non-executive Director of Ascent International Holdings Limited (Stock Code: 264) with effect from 25 July 2018.

Independence of Independent 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.

Hon. Quat Elizabeth (*JP*), Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan, being the independent non-executive Directors, are also 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 or, as the case may be, general meeting of the Company.

Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the certified accounting qualifications possessed by Mr. Poon Chiu Kwok.

By order of the Board
TUS International Limited
Ma Chi Kong Karl
Chairman

Hong Kong, 30 August 2018