啟迪國際有限公司
TUS International Limited

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 872

ANNUAL REPORT 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Chi Kong Karl *(Chairman)*
Mr. Du Peng
Mr. Shen Xiao

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

COMPANY SECRETARY

Mr. Lee Chi Yung

AUTHORISED REPRESENTATIVES

Mr. Shen Xiao
Mr. Lee Chi Yung

AUDIT COMMITTEE

Mr. Poon Chiu Kwok *(Committee Chairman)*
Mr. Tsang Ling Biu, Gilbert
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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House, 3/F
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Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
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AUDITORS

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LEGAL ADVISERS

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Cayman Islands

PRINCIPAL BANKERS

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

STOCK CODE

Stock Code: 00872.HK

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board of directors of TUS International Limited ("the Company"), I am pleased to present the audited financial results of the Company and its subsidiaries (together, "the Group") for the fiscal year ended 31 December 2018 in this report.

BUSINESS REVIEW

2018 was a year of breakthrough in development of our core businesses:

1. 2018 saw continued growth of our camera-based ADAS business, despite the overall weakness in automotive sales in China. In addition, our camera-based ADAS solution won "2018 National Science and Technology Advancement Reward Grade Two", a demonstration of our leadership in ADAS technology and market share.

2. On cloud control business side, together with Shanghai International Automotive City Limited, the automotive industry investment arm of Shanghai government, and National Intelligent Connected Vehicles ("ICV") Innovation Center, where we are one of the founding shareholders, we announced the country's first large-scale demonstration cloud control project in Shanghai. Such project successfully won the "2019 Made in China Competitiveness Enhancement Project" reward and subsidies.

3. In July 2018, we announced a very substantial acquisition of Telit's automotive connectivity module business, which was successfully completed on 27 Feb, 2019. Such acquisition is expected to significantly increase our revenue in 2019, enhance our technology competence in cloud control business, and build our global leadership in the rapid-growing vehicle connectivity market, such as LTE, vehicle-to-everything ("V2X") and 5G solutions.

4. We also started our millimeter-wave radar business in Germany, which will allow us to not only provide our customers with camera/radar-fused ADAS solutions, but also provide the essential sensor and technology competence for road-side systems for cloud control solutions.

ACTIVE PARTICIPANT OF CHINA'S NATIONAL ICV STRATEGY

We continue to take active approach to support and participate into China's national strategy on ICV industry. In March 2018, we, together with eleven other leading players in the ICV ecosystem, such as leading OEMs and tier 1s, jointly founded the National ICV Innovation Center to promote the development and adoption of core, fundamental and common technologies of ICV. Another 10 leading players later on joined as shareholders. We will continue to work with National ICV Innovation Center and its founding shareholders to promote cloud control technologies for smart mobility system, and will continue to support and ride on China's national strategy on ICV.

OTHER BUSINESSES

In order to concentrate our managerial and financial resources on our core businesses, we entered into a memorandum of understanding in January 2019 with Yadu Technology Group Co., Ltd. to dispose of our investment in Suzhou Yadu Cloud Technology Co., Limited. We will continue to seek to do so when opportunities arise.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PROSPECTS

Looking into 2019, despite the challenging market conditions of the China and global automotive industry, we expect to see significant growth in our revenue and profitability, as a result of (1) continued growth in camera-based ADAS solutions and improved gross margin, driven by higher penetration ratio of ADAS solutions and improved cost control; (2) material revenue from cloud control business; and (3) revenue and profit from the vehicle connectivity business, which is driven by higher penetration rate and expanding customer base.

We will continue to build our technology competence through increasing investment in R&D on V2X/5G, radar, camera/radar fused systems, and cloud control total solutions in 2019. We will continue to support and ride on China's national strategy on ICV. We plan to enhance our R&D facilities and team to be able to qualify for "National Level" R&D center, so as to receive more funding support from different government and industry programs.

In addition, as announced by TUS Holdings on 20 March 2019, Xiong'An government affiliate will become the largest shareholder of TUS Holdings with equal shareholding to Tsinghua University. We believe it presents a great opportunity for the development of our core businesses. We will leverage this opportunity and seek to expand our businesses, in particular, cloud control solutions for smart mobility system into this new city to accelerate the commercialisation of our cloud control solutions.

APPRECIATION

On behalf of the board, I would like to take this opportunity to thank our investors and shareholders for their support to our Group, and I would like to thank all the staff for their relentless efforts in executing our Group's strategy and vision. The management team will continue to devote in creating long term value for all our shareholders.

Ma Chi Kong Karl
Chairman
Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

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. ADAS products, ranging on the spectrum active (control) and passive (warning), include the around view monitoring, lane departure warning, forward collision warning, pedestrian detection, night vision, blind spot detection, driver fatigue monitoring and other ADAS-related technologies. The Group is also actively developing the cloud control platform for intelligent and connected vehicles and application and working closely with other founding members of the National Innovation Center of Intelligent Connected Vehicles to promote the project of the national big data cloud control platform for intelligent connected vehicles.

BUSINESS REVIEW

The Group is dedicated to developing autonomous driving systems based on highly integrated multi-sensors, vehicle cloud computing and deep learning artificial intelligence and is committed to provide full-stack autonomous driving solutions. ADAS, as a transitional technology to complete autonomous driving, comprises of several control points, among others, sensors, connectivity, mapping, processors and software algorithms.

ADAS and autonomous driving industry is a fast-growing industry notwithstanding the stagnant automobile market in China in 2018 with year-on-year decline in sales of 2.8 percent. The global market size of ADAS and autonomous driving industry in 2017 was approximately US$11.0 billion and is expected to achieve US$67.4 billion by 2025 with compound annual growth rate ("CAGR") of 19.0% in accordance with Grand View Research's report published in February 2018. The major factors driving growth of the ADAS market are, among others, stringent government regulations for road safety, higher safety demand from customers, increased adoption from the automotive sector and growing awareness of driver assistance system. It is expected that the ADAS market has huge potential for growth in China due to possibility of upcoming mandatory regulations in basic safety systems and low penetration rate in China (2017: 10%), as a result of limited involvement of domestic suppliers and high ADAS costs.

In 2017, the Group acquired 36.61% equity interests in Suzhou Zhihua Automobile Electronics Co., Ltd ("Suzhou Zhihua") and Beijing Yinwo Automobile Technology Company Limited (collectively, "Suzhou Zhihua Group") to tap into intelligent connected vehicles business. Suzhou Zhihua Group is principally engaged in production and sales of ADAS products, which possesses competitive advantage in camera-based ADAS solutions with strong client base in China. During the year ended 31 December 2018 (the "Year"), the Group further acquired 4.2636% and 3.876% equity interests in Suzhou Zhihua Group on 20 March 2018 and 4 May 2018 at a consideration of RMB17.0 million and approximately RMB15.5 million respectively. Upon completion, the Company indirectly holds an aggregate of 44.7538% equity interests in Suzhou Zhihua. In the event that the Company fully exercises the option granted by Suzhou Zhihua in favour of Suzhou Qiyizhi Management Enterprise Limited ("Suzhou Qiyizhi"), a subsidiary of the Company, it is expected that the Company will indirectly hold an aggregate of approximately 51.5384% equity interests in Suzhou Zhihua Group. With solid track record in ADAS products based on product quality and affordable price together with one of the early movers in pre-installed ADAS market, the completion of the acquisition in Suzhou Zhihua Group helped/would help the Group in establishing a solid foundation in automotive business, and developing new business opportunities in smart mobility sector.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(CONTINUED)*

To enhance the ADAS sensor capabilities, a joint venture which was held as to approximately 75.28% by an indirect wholly-owned subsidiary of the Company was formed in August 2018 for the development, production and international marketing of automotive millimeter wave radar sensor components and sensor systems for environment recognition, distance and position measuring, measuring of objects and performance of related services. Millimeter wave radar is an essential sensor for ADAS and autonomous driving systems and the combined use of cameras and millimeter wave radars for sensor fusion could strengthen the functionality of the Company's products. During the Year, the Group has contributed EUR18,821 and EUR1.8 million to the joint venture as share capital and capital reserve respectively. In year 2019, additional EUR1.8 million in the form of capital reserve will be provided to the joint venture in accordance with the shareholders' agreement. The Group, as a supplier of the camera-based ADAS solutions, has established good business relationships with most of the major automotive manufacturers in China. The Group could leverage these existing relationships to promote the radar solution from the joint venture and strengthen the functionality of its products by the combined use of cameras and millimeter wave radars for sensor fusion. The Board considers that the Group could leverage on the strength, resources and expertise of the joint venture partners to develop automotive radar technology, which will create favorable synergies for the Group.

For software algorithms, the Company has established TUS Cloud Control (Beijing) Technology Limited ("TUS Cloud Control") with registered share capital of RMB100 million of which 70% was contributed by the Group in October 2017 to develop intelligent and connected vehicles big data cloud platform technology and related business. TUS Cloud Control aims to connect all vehicles, infrastructure, pedestrians into a holistic mobility system, facilitate intelligent data exchange among mobility system and motion control, and provide big data and cloud artificial intelligence services. During the Year, the Company contributed approximately HK$34.2 million in TUS Cloud Control as general working capital and research and development cost. In March 2018, each of TUS Cloud Control and certain leading enterprises of the industry including automotive original equipment manufacturers and mobility service providers, contributed RMB50.0 million, and jointly established the National Innovation Center of ICV (the "National Innovation Center") which was positioned as the core source of forward-looking and common cross key technologies, core public platform of research and development, transformation of technological achievements, innovation and development of the industry, and the base in gathering and cultivating high-end talents. As of 31 December 2018, there are 18 members in the National Innovation Center with registered share capital of RMB90.0 million of which 5.55% was contributed by the Group. In 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 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.

In July 2018, the Group entered into vehicle connectivity market by acquiring auto-grade wireless communication module business ("Wireless Business Group") from Telit Communications PLC and Telit Wireless Solutions S.R.L and Telit Automotive Solutions NV at the aggregate consideration of US$105.0 million. The Wireless Business Group is one of the top five automotive-grade connectivity module suppliers based on the worldwide total sales amount of automotive-grade connectivity module related products in 2017. The acquisition was completed on 27 February 2019 and the result of the Wireless Business Group will be fully consolidated after the date of completion on 27 February 2019. The Wireless Business Group is expected to have significant synergies with other businesses of the Group, and will significantly expand the global footprint and improve overall business and financial performance of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(CONTINUED)*

Other Businesses

As disclosed in the 2017 annual report, the Company has successfully transformed to cloud control and intelligent autonomous driving service providers and became one of the most influential players in the intelligent connected vehicles industry in China. Segments of car-carried purifiers, car trading, and finance lease of motor vehicles and equipment became non-core businesses of the Group.

References are made to the 2017 annual report, 2018 interim report and announcement dated 7 January 2019 of the Company. 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. Pursuant to the 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 RMB13.0 million for the period from 1 July 2017 to 31 December 2018 ("Profit Guarantee") on condition that a shareholder loan of RMB15.0 million ("Shareholder Loan") should be available after Completion. Nevertheless, the Group failed to provide the Shareholder's Loan within the agreed term and the Profit Guarantee was not effective. On 3 January 2019, the Group entered into a memorandum of understanding in relation to the Potential Disposal of 51% equity interest in the Yadu Cloud to Yadu Technology Group Co., Ltd.（亞都科技集團有限公司）("Potential Disposal") as a result of adjustments on business strategies of the Group and the unsatisfactory business performance of Yadu Cloud. The Company considers that the Potential Disposal provides for the Company to exit at acceptable terms and recoup investments in the Yadu Cloud. The Board believes that the Potential Disposal would be beneficial to and in the interest of the Company and Shareholders as a whole.

The Company will from time to time monitors the business performance of car-carried purifiers segment, car trading segment and finance lease of motor vehicles and equipment segments and adjust the strategies in those segments as and when appropriate.

FINANCIAL REVIEW

The revenue and gross profit of the Group for the Year increased by approximately 125.6% and 127.7% to approximately HK$457.2 million and HK$60.8 million respectively (2017: HK$202.7 million and HK$26.7 million respectively). Such increase was primarily due to the strategic change of the Group to tap into the ADAS segment via the acquisition of Suzhou Zhihua Group in 2017 in which the Group fully consolidated the results since December 2017. Despite such increase, the net loss for the Year increased by 82.3% to approximately HK$128.5 million (2017: HK$70.5 million). It was primarily due to the significant increase in research and development expenses, imputed interest expenses arising from convertible bonds and expenses in relation to a very substantial acquisition of Wireless Business Group by HK$5.0 million, HK$16.1 million, and HK$14.4 million respectively to HK$10.1 million, HK$38.1 million, and HK$14.4 million respectively (2017: HK$5.1 million, HK$22.0 million and nil respectively).

ADAS Products and other automotive components

Revenue of ADAS products and other automotive components ("ADAS Segment") is mainly generated from sales of camera modules, around view monitoring systems, lane departure warning systems and digital video recorders. Major customers of ADAS segment comprises mainstream automakers in China such as Guangzhou Automobile, Dongfeng Nissan and Geely Automobile. Revenue and gross profit of ADAS Segment grew by 1,119.3% and 352.3% to approximately HK$328.0 million and HK$38.9 million respectively for the Year (2017: HK$26.9 million and HK$8.6 million) as a result of the completion of acquisition of Suzhou Zhihua Group in December 2017. The ADAS Segment recorded gross profit margin of 11.9% for the Year (2017: 32.0%). Such change was mainly attributable to the one-off price adjustment of the customers at the end of each year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(CONTINUED)*

Car-carried Purifiers

The Group has adjusted its overall strategy to become cloud control and intelligent autonomous driving service providers since 2017. In addition, the haze control measures in Beijing are more effective than expected, resulting in a sharp decline in market demand for car-carried purifiers. As such, there was no revenue and gross profit for the segments of car-carried purifiers during the Year (2017: HK$5.9 million and HK$0.9 million respectively).

Car Trading

The revenue and gross profit of car trading business for the Year decreased by approximately 96.3% and 92.9% to approximately HK$2.0 million and HK$0.1 million respectively (2017: HK$54.5 million and HK$1.4 million respectively) due to drop in car trading in the PRC as a result of the changes of the company's overall strategy since 2017.

Finance Lease of Motor Vehicles and Equipment

The revenue and gross profit of finance lease of motor vehicles and equipment business increased by 10.3% and 37.3% to approximately HK$127.2 million and HK$21.7 million respectively (2017: HK$115.3 million and HK$15.8 million). It is expected that the revenue of the segment will be decreasing as the Group had focused its resources to develop cloud control and intelligent autonomous driving services since 2017.

Other Revenue

During the Year, other revenue of the Group amounted to approximately HK$3.3 million (2017: HK$4.2 million) which mainly included bank interest income of approximately HK$1.9 million (2017: HK$2.3 million).

Other Gains or Losses

During the Year, other losses of the Group increased by HK$3.8 million to HK$9.0 million (2017: HK$5.2 million) which was primarily due to impairment of trade and other receivables and impairment loss on interest in associate of HK$1.1 million and HK$5.2 million respectively.

Research and Development Expenses

The research and development expenses before capitalisation amounted to HK$75.8 million (2017: HK$5.1 million) in which HK$65.7 million (2017: nil) was capitalised as intangible assets during the Year. Research and development expenses after capitalisation for the Year surged by 94.2% to approximately HK$10.1 million (2017: HK$5.1 million). Such increase was primarily due to the completion of acquisition of Suzhou Zhihua Group in December 2017 which has approximately 130 research and development staff in Suzhou and Beijing as well as the establishment of TUS Cloud Control in October 2017 for the development of intelligent and connected vehicles big data cloud platform technology and related business which has approximately 60 research and development staff in Beijing.

Selling and distribution expenses

During the Year, selling expenses and distribution expenses, representing 2.7% of the Group's revenue (2017: 1.4%), grew by 335.7% to approximately HK$12.2 million (2017: HK$2.8 million). Such increase was primarily due to the growth in sales of Suzhou Zhihua Group by 1,119.3% as a result of the completion of acquisition of Suzhou Zhihua Group in December 2017.

FINANCIAL REVIEW *(CONTINUED)*

Administrative Expenses

During the Year, administrative expenses, representing 23.1% of the Group's revenue (2017: 34.8%), rose by 49.5% to approximately HK$105.4 million (2017: HK$70.5 million) which was primarily due to increase in expenses in relation to a very substantial acquisition of Wireless Business Group amounting to approximately HK$14.4 million.

Finance Costs

During the Year, finance costs grew by 126.9% to approximately HK$54.0 million (2017: HK$23.8 million) as a result of the increase in imputed interests on convertible bonds and interest expenses on other loans from approximately HK$22.0 million and HK$1.2 million respectively for the year ended 31 December 2017 to approximately HK$38.1 million and HK$11.4 million respectively for the Year.

Share of loss of an associate

Share of loss of an associate for the Year amounted to approximately HK$1.6 million (2017: HK$3.4 million).

Share of loss of a joint venture

Share of loss of a joint venture for the Year amounted to approximately HK$1.9 million (2017: HK$0.9 million).

Taxation

Due to the reversal of temporary differences, the Group recorded a deferred tax credit of approximately HK$3.3 million (2017: HK$11.3 million) during the Year. On the other hand, certain subsidiaries of the Company in the PRC generated net profit and the Group recorded PRC income tax expense amounting to approximately HK$1.7 million for the Year (2017: HK$1.0 million) accordingly. As a result, the Group recorded income tax credit of approximately HK$1.6 million during the Year (2017: HK$10.3 million).

Net loss attributable to shareholders

As a result of the factors discussed above, the Group's net loss for the Year widened to approximately HK$128.5 million (2017: HK$70.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(CONTINUED)*

Financial assets at fair value through other comprehensive income

The investments which are held as long-term strategic investments and not expected to be sold in the short to medium term are classified under financial assets at fair value through other comprehensive income ("FVTOCI"). Changes in fair value would be recognised in other comprehensive income ("OCI") and would not be recycled to profit and loss, even if the asset is sold or impaired.

As at 31 December 2018, investments of HK$314.6 million were classified under FVTOCI (2017: HK$357.6 million was classified under available-for-sale investments ("AFS")) and impairment loss of HK$100.7 million (2017: nil) was recognised due to changes in fair value of investments during the Year. Details of the investments are as follows:

	31 December 2018	Impairment loss recognised through OCI during the Year	Exchange differences	Investments acquired during the Year	Fair value adjustments at 1 January 2018	31 December 2017 (note 1)
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
18% equity interest in More Cash Limited	71.1	(1.9)	–	–	–	73.0
2.46% (2017: 7.88%) equity interest in Sino Partner Global Limited	39.1	(96.9)	–	–	–	136.0
14% equity interest in Suzhou Ziguang (note 2)	150.8	5.5	(8.2)	–	8.1	145.4
5.55% equity interest in the National Innovation Center (note 3)	51.2	(5.8)	(1.7)	58.7	–	–
Gap fund with TusStar and MICHIGAN (note 4)	0.8	(0.8)	–	0.8	–	0.8
9.8% equity interest in 蘇州優達斯汽車科技有限公司	1.6	0.4	–	–	–	1.2
7.92% equity interest in 四川智華盾肯電子科技有限公司	–	(1.2)	–	–	–	1.2
Total	314.6	(100.7)	(9.9)	59.5	8.1	357.6

Note 1: Investments were classified under AFS as of 31 December 2017 and reclassified as FVTOCI on 1 January 2018.

Note 2: Suzhou Ziguang Innovative Education Development Company Limited

Note 3: National Innovation Centre of Intelligent Connected Vehicles

Note 4: 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 a 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.

FINANCIAL REVIEW *(CONTINUED)*

Financial assets at fair value through other comprehensive income *(Continued)*

The value of the input, the valuation methodology and reasons for subsequent changes in value of input and assumptions or changes in the valuation methodology from those previously adopted are disclosed as below:

As at 31 December 2018

	Value of input (e.g. the projected cash flow, discount rate and growth rate) used in the valuations together with the basis and assumptions	Valuation methodology	Reasons for subsequent changes in value of input and assumptions or changes in the valuation methodology from those previously adopted
18% equity interest in More Cash Limited	Weight average cost of capital ("WACC"): 9.09%; Discount for lack of control: 9.7%; Long term growth rate: 3.00%	Income approach – discount cash flow	N/A
2.46% (2017: 7.88%) equity interest in Sino Partner Global Limited	WACC: Supercar segment 18.03% and Electric vehicle segment 23.90%; Discount for lack of marketability: 25.00%; Discount for lack of control: 5.00%; Long term growth rate: 2.00%	Income approach – discount cash flow	69% dilution effect due to convertible note issued on 2 October 2018 and fully converted on 16 January 2019. The effective equity interest reduced from 7.88% to 2.46%
14% equity interest in Suzhou Ziguang	No unobservable inputs	Asset approach	N/A
5.55% equity interest in the National Innovation Center	No unobservable inputs	Asset approach	N/A
Gap fund with TusStar and MICHIGAN	No unobservable inputs	Asset approach	N/A
9.8% equity interest in 蘇州優達斯汽車科技有限公司	WACC: 14.66%; Discount for lack of control: 22.60%; Long term growth rate: 3.00%	Income approach	N/A
7.92% equity interest in 四川智華盾肯電子科技有限公司	WACC: 14.66%; Long term growth rate: N/A	Income approach	Fully impaired due to insufficient projection of the operation of business

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(CONTINUED)*

Use of Net Proceeds of the Allotment and Issue of shares

References are made to the announcements dated 17 April 2018, 21 June 2018 and 12 September 2018 in relation to the connected transaction involving the issuance of shares and convertible bonds under specific mandate. The net proceeds from the allotment and issue of shares (after deducting all relevant costs and expenses of the issue of shares) are approximately HK$162.0 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 31 December 2018, the net proceeds had been used for the following purposes:

Purposes of the net proceeds	Net proceeds HK$ million	Utilised during the Year HK$ million	Not yet utilised or not completed HK$ million	Expected time frame of the net proceeds
1 Capital contribution to TUS Cloud Control	62.5	62.5	–	N/A
2 Settlement of the consideration 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 sectors in automobile industry	27.1	27.1	–	N/A
5 Working capital and general corporate purpose	15.5	15.5	–	N/A
	162.0	162.0	–	N/A

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

Liquidity and Financial Resources

As at 31 December 2018, total assets of the Group amounted to approximately HK$1,238.6 million (31 December 2017: approximately HK$1,243.1 million), which were financed by total liabilities of approximately HK$791.2 million (31 December 2017: approximately HK$710.0 million) and equity of approximately HK$447.4 million (31 December 2017: approximately HK$533.0 million). The net asset value was approximately HK$447.4 million (31 December 2017: approximately HK$533.0 million). The net asset value per share amounted to approximately HK$0.34 per share (31 December 2017: HK$0.57 per share).

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$104.0 million (31 December 2017: HK$126.6 million). The decrease in cash and cash equivalent was mainly due to cash outflows from operating activities and investing activities amounting to HK$240.0 million. It was offset by 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 and convertible bond during the Year amounting to approximately HK$259.8 million.

The Group recorded a net loss of approximately HK$128.5 million for the Year (2017: HK$70.5 million) and any obligations arising from the acquisition as discussed on pages 16 to 17 under "Important Transaction During the Year" 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 31 December 2018 with cash and cash equivalents, net current assets and net assets value of approximately HK$104.0 million, HK$120.2 million and HK$447.4 million respectively. In addition, the management of the Company has taken the following steps to further strengthen the Group's financial position:

1) The Company has been contemplating a three-year term loan with a principal amount of US$38.5 million (equivalent to approximately HK$302.23 million) subject to the final approval from the relevant bank to finance the acquisition of auto-grade wireless communication module announced in July 2018 (the "Very Substantial Acquisition");

2) The Company has entered into subscription agreements on 11 January 2019 and 30 January 2019 respectively to obtain equity and debt financing of HK$470.0 million for the settlement of the consideration of the Very Substantial Acquisition and convert debt to equity of HK$27.4 million;

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.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY *(CONTINUED)*

Net borrowing position

The total borrowings, including borrowings and convertible bonds, as at 31 December 2018 increased by approximately HK$102.8 million to approximately HK$521.1 million (2017: HK$418.3 million). The change in total borrowings was mainly attributable to an increment of approximately HK$53.7 million as a result of the issuance of 0% coupon convertible bonds due 21 June 2023 in the aggregate principal amount of HK$53.7 million during the Year and increment in interest-bearing bank borrowings of Suzhou Zhihua amounting to approximately HK$15.2 million. However, cash and bank balances and pledged deposits as at 31 December 2018 decreased by HK$22.6 million to approximately HK$104.0 million (31 December 2017: HK$126.6 million). As such, the net borrowings increased to approximately HK$417.1 million (31 December 2016: HK$291.7 million).

Structure of interest bearing borrowings and net borrowing position

As at 31 December 2018, the Group had short-term borrowings of approximately HK$133.3 million (31 December 2017: HK$84.0 million) which included bank loans with principal amount of approximately HK$83.7 million (31 December 2017: HK$68.4 million) with fixed interest rates of 4.79% – 5.66% (31 December 2017: 4.75% – 5.66%), and other loans of approximately HK$49.7 million (31 December 2017: HK$15.5 million) which were obtained from independent third parties with fixed interest rates of 4.4% – 14.0% (31 December 2017: 4.4% – 8.5%) and were not yet matured as of 31 December 2018. The short-term borrowings were primarily used to finance short-term cash flows for the operations of the Group. Approximately HK$83.7 million of the bank loans were denominated in Renminbi as at 31 December 2018 (31 December 2017: approximately HK$68.4 million). As for the other loans, approximately HK$34.5 million, HK$10.7 million and HK$4.4 million were denominated in US dollar, Hong Kong dollar and Renminbi respectively as at 31 December 2018 (31 December 2017: approximately HK$5.0 million, HK$4.5 million and HK$6.0 million respectively).

As at 31 December 2018, the Group had convertible bonds of approximately HK$387.7 million (31 December 2017: HK$334.4 million) in which HK$58.3 million (31 December 2017: nil) was classified under current liabilities and HK$329.4 million (31 December 2017: HK$334.4 million) was classified under non-current liabilities. During the Year, HK$61 million 0% coupon bond due 2019 (the "CB1") of approximately HK$58.3 million and with maturity date on 27 May 2019 was reclassified from non-current liabilities to current liabilities. As such, convertible bonds classified under current liabilities as at 31 December 2018 increased to HK$58.3 million (31 December 2017: nil).

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY *(CONTINUED)*

Turnover days, liquidity ratios and gearing ratios

Credit terms, normally not more than 90 days from the date of billing, are granted to customers, depending on their credit worthiness and business relationships with the Group. Trade receivable turnover days (trade receivable over revenue excluding finance lease of motor vehicles and equipment segment) for the Year is 154 days (31 December 2017: 626 days) Trade payable turnover days and inventory turnover days for the Year are 149 days and 115 days respectively (2017: 469 days and 249 days respectively). The decrease in turnover days of trade receivables, trade payables and inventory was primarily due to fully consolidation of Suzhou Zhihua group since December 2017.

The current ratio and quick ratio as at 31 December 2018 decreased to approximately 1.3 (31 December 2017: 1.5) and 1.1 (31 December 2017: 1.2) respectively. Such decrease was primarily due to reclassification of CB1 from non-current liabilities to current liabilities during the Year. Gearing ratio which was derived from total of debts (i.e. total of borrowings and convertible bonds) to total equity and total of debts was approximately 0.55 (31 December 2017: 0.44).

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.

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 31 December 2018, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

CHARGE OF ASSETS

As at 31 December 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 RMB48.1 million (31 December 2017: approximately RMB42.4 million). Bills payables were also pledged with bank deposits and bills receivables amounting to approximately HK$4.0 million and HK$8.2 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 31 December 2018.

CONTINGENT LIABILITIES

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

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS

In the short run, the Group will maintain the competitiveness through capturing the market share in camera-based ADAS business in China and leveraging on the synergistic effect with the radar business, automotive-connectivity modules business and autonomous driving algorithm business to diversify its product mix and enhance its capability in developing high value-added products and new applications through in-house research and development efforts.

In the long run, the Group will strengthen its market position by leveraging on its research and development capabilities and collaborating with members of National Innovation Center of Intelligent Connected Vehicles in the development and commercialisation of various forward looking and common technologies.

References are made to the announcements 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 of completion
Acquisition of auto-grade wireless communication module	US$105.0 million	Internal resources, debt financing and equity financing	Completed on 27 February 2019
Formation of JV Company in Germany	EUR2.88 million	Internal resources, debt financing and equity financing	Completed

Significant Investment

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

IMPORTANT TRANSACTIONS DURING THE YEAR

Joint Establishment of the National Innovation Center of Intelligent Connected Vehicles (the "Center")

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. 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

IMPORTANT TRANSACTIONS DURING THE YEAR *(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）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") 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.

Very Substantial Acquisition in relation to the Acquisition of the Entire Issued Share Capital of Telit Automotive Solutions NV

References are made to the announcements of the Company dated 12 July 2018, 31 October 2018, 11 December 2018, 26 December 2018, 29 January 2019, 1 February 2019 and 27 February 2019 respectively in relation to, among others, the very substantial acquisition of the Telit Automotive Solutions NV.

On 12 July 2018, the Company entered into an acquisition agreement to buy all the issued shares of Telit Automotive Solutions NV 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 Telit Automotive Solutions NV at the completion of the sale and purchase of all the issued shares of Telit Automotive Solutions NV (the "Completion") and the relevant transfer costs. The consideration was settled by the Company in way of equity and debt financing by issuing 626,425,871 new shares of the Company ("Shares"), the 0% coupon convertible bonds due 2025 with principal amount of HK$89,882,500 and bank borrowings of US$38.5 million. Pursuant to the Listing Rules, the acquisition constituted a very substantial transaction of the Company. The completion of the acquisition took place on 27 February 2019, upon which the Telit Automotive Solutions NV became a wholly-owned subsidiary of the Company.

The Directors believe the acquisition of Telit Automotive Solutions NV is beneficial to the Group with synergistic effects in term of customer relationships, complementary technologies and research and development capabilities.

CONNECTED TRANSACTIONS

References are made to the Company's announcements dated 17 April 2018, 21 June 2018 and 12 September 2018 in relation to the connected transaction involving the issuance of shares and convertible bonds under specific mandate.

MANAGEMENT DISCUSSION AND ANALYSIS

CONNECTED TRANSACTIONS *(CONTINUED)*

On 17 April 2018, the Company and several subscribers (the "Subscribers") entered into a subscription agreement (the "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 new shares of the Company (the "Subscription Shares") at the price of HK$0.537 per share and the total consideration of HK$212,115,000; and (ii) the 0% coupon convertible bonds due 2023 in the aggregate principal amount of HK$53,700,000 ("New Convertible Bonds") to be issued by the Company to Mr. Ma Chi Kong Karl ("Mr. Ma") which may be converted into 100,000,000 conversion shares at the initial conversion price of HK$0.537.

The completion of the subscription of the Subscription Shares and the New Convertible Bonds by the Subscribers (the "Subscription") (save for the Subscription by Mr. Shen Xiao ("Mr. Shen") and Sumchi International Co., Limited ("Sumchi")) took place on 21 June 2018 in accordance with the terms and conditions of the Subscription Agreement. A total of 295,000,000 Subscription Shares were duly allotted and issued to the relevant Subscribers (except for Mr. Shen and Sumchi) on 21 June 2018 at the price of HK$0.537 per share, and the New Convertible Bonds were duly issued to Mr. Ma on 21 June 2018. The completion of Subscription by Mr. Shen and Sumchi took place on 12 September 2018 in accordance with the terms and conditions of the Subscription Agreement. A total of 100,000,000 Subscription Shares were duly allotted and issued to Mr. Shen and Sumchi on 12 September 2018 at the price of HK$0.537 per share. The net proceeds from the subscription of the Subscription Shares and the New Convertible Bonds by the Subscribers after deducting all relevant costs and expenses amounted to approximately HK$162 million, the details of utilisation of which are set out in Management Discussion And Analysis under section headed Financial Review.

The Board considered that the subscription which involves the issue of Subscription Shares and the New Convertible Bonds by the Company will enable the Company to (i) enhance its working capital and financial position, (ii) settle the outstanding amount of consideration in relation to the previous acquisitions and related arrangements, and (iii) allow possible future mergers and acquisitions activities, and it was in the interests of the Company and its shareholders as a whole.

Each of Mr. Ma and Mr. Shen, two of the Subscribers under the Subscription, is an executive director of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Subscription by each of Mr. Ma and Mr. Shen constitutes a connected transaction of the Company.

Save as disclosed above, the Group had no connected transactions that needed to be disclosed in compliance with the requirements under chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2018 are disclosed in note 40 to the consolidated financial statements of the Company under the standards for preparing such financial statements. Such related party transactions are not connected transactions as required to be disclosed in this report under Rule 14A.71 of the Listing Rules.

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

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS SUBSEQUENT TO THE YEAR UNDER REVIEW

Connected Transaction in Relation to Issue of New Shares and Convertible Bonds to Tuspark Venture under Specific Mandate; and Issue of New Shares to E-town under Specific Mandate

References are made to the announcements of the Company dated 11 January 2019, 15 January 2019, 30 January 2019 and 27 February 2019. The Company and Tuspark Venture Investment Ltd. ("Tuspark Venture") entered into a subscription agreement to allot and issue 239,345,003 new Shares at the price of HK$0.6084 per share and the 0% coupon convertible bonds due 2025 in the aggregate principal amount of HK$89,882,500 at the total consideration representing 100% of the principal amount which may be converted into 147,735,865 conversion shares at the initial conversion price of HK$0.6084 per Share on 11 January 2019 (the "Tuspark Subscription"). On 11 January 2019, the Company and E-Town International Holding (Hong Kong) Co., Limited entered into a subscription agreement to allot and issue, 387,080,868 new Shares at the price of HK$0.6084 per Share (the "E-Town Subscription"). Pursuant to the Listing Rules, each of the Tuspark Subscription and the E-Town Subscription were subject to Shareholders' approval and Tuspark Venture is a substantial shareholder of the Company and therefore the Tuspark Subscription constituted a connected transaction of the Company. The net proceeds were approximately HK$470.0 million and the Company intended to apply the net proceeds for settlement of the consideration for the acquisition of Telit Automotive Solutions NV. The completion took place on 27 February 2019.

References are made to the announcements of the Company dated 30 January 2019 and 27 February 2019. The Company, Dawin (H.K) Limited ("Dawin") and Mr. Piao Xingfeng, the ultimate beneficial owner of entire issued share capital of Dawin ("Mr. Piao") entered into a subscription agreement, pursuant to which Dawin conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 45,000,000 new Shares ("Subscription Shares") at the price of HK$0.6084 per Share under general mandate. The total consideration for the Subscription Shares was HK$27,380,000 and settled by way of set off against the equivalent amount of the outstanding loan amount of the unsecured loan facilities of up to US$8 million granted by Mr. Piao to the Company pursuant to the loan agreement dated 7 June 2018 entered into between the Company as borrower and Mr. Piao as lender, as amended and supplemented by the supplemental agreements dated 14 September 2018 and 28 January 2019 entered into by the same parties. Thus, no cash proceed was received by the Company from the subscription. The completion took place on 27 February 2019.

Change of Company Secretary and Authorised Representative

References are made to the announcements dated 24 June 2018 and 25 January 2019 respectively. On 24 June 2018, the Company has appointed Ms. Li Fung Shan ("Ms. Li") as the acting company secretary of the Company with effect from 26 June 2018. On 25 January 2019, the Company appointed Mr. Lee Chi Yung ("Mr. Lee") to act as company secretary and authorised representative of the Company within the meaning of Rule 3.05 of the Listing Rules ("Authorised Representative"). Ms. Li then resigned from the position of the acting company secretary and one of the Authorised Representative as she had other business engagements in the Company.

Save as disclosed herein, no other subsequent events occurred after 31 December 2018, which may have a significant effect on the assets and liabilities of future operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the Year, 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 31 December 2018, the Group employed 424 staff in the PRC and Hong Kong (31 December 2017: 373). Remuneration of employees including Directors' emoluments was approximately HK$40.4 million for the Year (2017: HK$44.7 million).

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.

RETIREMENT SCHEMES

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Market Risk

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

PRINCIPAL RISKS AND UNCERTAINTIES *(CONTINUED)*

Foreign Exchange Rate Risk

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

Interest Rate Risk

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

Equity Price risk

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

Liquidity Risk

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

Operational Risk

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

Investment Risk

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

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES *(CONTINUED)*

Economic Environment

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

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

RELATIONSHIPS WITH STAKEHOLDERS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ma Chi Kong Karl, aged 48, has been appointed as the chairman of the Company and an executive Director since 15 July 2016. Mr. Ma graduated from University of Michigan with a Bachelor degree in Business Administration, and from London Business School of the University of London with a Master degree in Finance. He obtained the professional qualifications of the Chartered Financial Analyst and is a member of Hong Kong Society of Financial Analysts.

Mr. Ma has been engaged in the investment and financing, fund management and other works in many international investment banks including Credit Suisse. He has more than 20 years of experience in financial business and investment. He also has extensive government relations and business networks all over the mainland China, Hong Kong, Macao and overseas. Currently, Mr. Ma acts as the Co-chairman of the board of directors of China Private Ventures Limited, the director of Tus-Holdings Co., Ltd., the Chairman of Tus Financial Company Limited, the director of Luso International Banking Ltd. and a member of Beijing Committee of The Chinese People's Political Consultative Conference. Tus-Holdings Co., Ltd. is the holding company of Tuspark Venture Investment Ltd., a substantial shareholder holding approximately 15.93% of the issued share capital of the Company as at the date of this report.

Mr. Shen Xiao, aged 40, has been appointed as the president of the Company and an executive Director since 21 June 2016. Mr. Shen holds a Master degree and a Bachelor degree in Management (Accounting) from Tsinghua University.

Before joining the Group, Mr. Shen had 15 years of working experience in investment banking business with BOC International Holdings Limited, Credit Lyonnais Securities Asia Limited (CLSA) and J.P. Morgan Securities (Far East) Limited, and was responsible for corporate finance activities and cross-border merger and acquisitions for companies in the PRC. Mr. Shen was an independent non-executive director of Ascent International Holdings Limited (a company listed in the Main Board of the Stock Exchange, stock code: 264) from 18 October 2017 to 25 July 2018.

Mr. Du Peng, aged 43, has been appointed as an executive Director and vice chairman of the Company since 12 June 2015 and 12 February 2018. Mr. Du graduated from Tsinghua University with a Bachelor degree in Engineering from School of Material Science and a Master degree in Management from School of Public Management.

Mr. Du joined Tus-Holdings Co., Ltd. (previously named as Tsinghua University Science Park Development Centre) from 2002, and is currently the vice president of Tus-Holdings Co., Ltd. He is also the chairman of Beijing Tus Street Assets Management Co., Ltd. and the managing director of Tus Financial Company Limited (both companies are subsidiaries of Tus-Holdings Co., Ltd.). Mr. Du is also the independent director of Beijing Kingtop Technology Company Limited (a listed company in Over the Counter Bulletin Board with stock code of 430064.NEEQ). Mr. Du's public service positions include the vice chairman of the 29th and 30th council of Tsinghua Alumni Association of Hong Kong, the vice chairman of Zhongguancun Listed Companies Association, the executive vice chairman of Zhongguancun Committee of Industrial Alliance, council member of China Council for International Investment Promotion – Investment and Financing Committee and chief supervisory of Z-Park Association of Internet Finance.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Biu, Gilbert, aged 48, has been appointed as a non-executive Director since 15 May 2015. Mr. Tsang holds a Master degree in Commerce (with Professional Accounting and Finance) and a Bachelor degree in Science (with Information Systems) from University of New South Wales in Australia, and is also the fellow member of CPA Australia.

Mr. Tsang has wealth of experience in private equity and corporate finance. Throughout his career, he held various positions at Calibration Partners Limited, Barclays Capital Asia Limited, The Securities and Futures Commission of Hong Kong, Peregrine Brokerage Limited and Credit Lyonnais Securities Asia Limited (CLSA). He is the co-founder and partner of Calibration Partners Limited. Calibration Partners Limited provides independent, strategic and focused advice in mergers and acquisitions, capital raisings, structured debt, restructurings and bespoke direct investment opportunities. Mr. Tsang has also co-founded Alpha Calibration (Hong Kong) Limited, a thriving compliance advisory firm. Mr. Tsang was an independent non-executive director of Hingtex Holdings Limited (a company listed in the Main Board of the Stock Exchange, stock code: 1968) on 19 June 2018.

Mr. Qin Zhiguang, aged 63, has been appointed as a non-executive Director of the Company since 27 March 2018. Mr. Qin holds a Doctor of philosophy in Engineering from University of Electronic Science and Technology of China and a Master degree in Science from Xiangtan University of Hunan Province. The fields of research of Mr. Qin include artificial intelligence, smart transportation system, internet and internet security, and mobile internet and security.

Mr. Qin is currently the professor of School of Information and Software Engineering of University of Electronic Science and Technology of China, the director of Sichuan Province Major Laboratory of Internet & Data Security and the director of Sichuan Province Laboratory of Next Generation Internet Data Processing Technologies. He is also the member of the Academic Degrees Committee (Computer Science & Technology) (the sixth and seventh sessions) of the State Council, the member of the National Premium Expert Group of Cyberspace Security, the member of Decision Advisory Committee (the second session) of the People's Government of Sichuan Province, the Academic and Technical Leader of Sichuan Province, the committee member of the National Natural Science Foundation of China, the apprecial expert of both Ministry of Science and Technology of the PRC and Ministry of Education of the PRC, the executive director of China Software Industry Association, the president of Sichuan Software and Information Technology Service Industry Association, the president of Sichuan Computer User Association, the president of Sichuan Software Industry Association and the vice president of Sichuan Province Computer Deferation. Mr. Qin was also the dean of School of Computer Science and Engineering, the dean of school of Demonstration Software and dean of School of Information and Software Engineering of University of Electronic Science and Technology of China.

Mr. Qin is currently an independent director of Sichuan Jiuyuan Yinhai Software Company Limited (a listed company on the Shenzhen Stock Exchange, Stock Code: 002777.SZ).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hon. Quat Elizabeth *(JP)*, aged 52, has been appointed as an independent non-executive Director since 6 January 2017.

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

Mr. Poon Chiu Kwok, aged 56, has been appointed as an independent non-executive Director since 1 September 2015. Mr. Poon was awarded the postgraduate diploma in laws by the University of London. He holds a Bachelor degree in Laws and a Bachelor degree in Business Studies and a Master degree in International Accounting. He is a fellow member of CPA Australia Limited, the Hong Kong Securities and Investment Institute, The Institute of Chartered Secretaries and Administrators, and The Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel, Mainland China Focus Group and Audit Committee.

Mr. Poon has years of experience in corporate finance and listed company governance and management. Mr. Poon is currently an executive director and company secretary of Huabao International Holdings Limited (a listed company on the Main Board of the Stock Exchange, stock code: 336), and also serves as an independent non-executive director of the following companies listed on the Main Board of the Stock Exchange: AUX International Holdings Ltd. (stock code: 2080); Changan Minsheng APLL Logistics Co., Ltd. (stock code: 1292); Greentown Service Group Co. Ltd. (stock code: 2869); Honghua Group Limited (stock code: 196); Jinchuan Group International Resources Co. Ltd. (stock code: 2362); Sany Heavy Equipment International Holdings Company Limited (stock code: 631); Sunac China Holdings Limited (stock code: 1918); Tonly Electronics Holdings Limited (stock code: 1249); Yanzhou Coal Mining Company Limited (stock code: 1171) and Yuanda China Holdings Limited (stock code: 2789). Mr. Poon was a non-executive director of Chong Kin Group Holdings Limited (Stock Code: 1609) from 5 January 2018 to 6 June 2018.

Mr. Wong Yuk Lun, Alan, aged 44, has been appointed as an independent non-executive Director since 2 September 2014. Mr. Wong holds a Bachelor degree of Accounting and Finance from University of Sunderland.

Mr. Wong had been working with various accounting firms and commercial companies for about 20 years of working experience and was responsible for works related to financial management, taxation, audit and non-audit services. Mr. Wong is currently an independent non-executive director of Huisheng International Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1340). Mr. Wong was also an independent non-executive director of Bolina Holding Co., Ltd. (a company listed on the Main Board of the Stock Exchange, stock code: 1190) from 7 July 2016 to 27 March 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Deng Bo is the managing director of Suzhou Zhihua. Mr. Deng holds a Bachelor degree in Automobile Engineering from Tsinghua University, and has over 12 years experiences in the field of automobile including R&D and management. He was the engineer and department head of the Changan Automobile Engineering Research Centre (Electronic Fitting Design Section) and Changan New Energy Vehicle Co. under Changan Automobile (Group) Co. Ltd. He was also the technical director of Smart Vehicle and Control Research Team of the Automobile Engineering Department of Tsinghua University. Mr. Deng then founded Suzhou Zhihua and rapidly expanded the ADAS business of the latter.

Mr. Mike Masuda is the technical director of Suzhou Zhihua. Mr. Masuda holds a Master degree and a Bachelor degree in Electronic Engineering from Kyushu Institute of Technology in Japan, and has been focusing in the field of R&D and production of camera system products (especially in automobile camera, omni-view system and HD/3D camera technology) for over 35 years. He was the engineer, head of technical department and head of business department of Panasonic Corporation.

Mr. Jason Zhang is the deputy general manager and COO of Suzhou Zhihua. Mr. Zhang holds a Master degree in Management of Business from East China University and Bachelor degree in Mechanical Engineering (Machinery Design and Production) from Henan University of Technology, and has over 20 years experiences in the fields of vehicle electronics and management. He was with Suzhou Samsung Electronic Co. Ltd. (R&D Department), Suzhou Panasonic System Technology Co. Ltd. and Panasonic Semiconductor (Suzhou) Co. Ltd. (AVSMF Technology Department).

Mr. Wen Xu is the chief engineer of Suzhou Zihua. Mr. Wen holds a Master degree in Mechanical Engineering from University of Stuttgart and Bachelor degree in Precision Instrument from Tsinghua University, and has over 8 years of experience in the field of automotive parts development. He was awarded the title of leading talent in Suzhou-WuJiang. Mr. Wen was with HiRain Technologies and specialised in developing the ADAS software and algorithms. Mr. Wen led his team to finish development of the first ever 3D parking assistant system in China on various Nissan models during 2013-2014. He and his team then developed the 3D parking assistant system on SAIC-GM-Wuling models in 2016.

Mr. Yang Bo is the deputy general manager of Suzhou Zhihua. Mr. Yang holds a Master degree in Automotive Engineering from Tsinghua University, and has 8 years of experience in the field of automotive parts development, specialising in the Forward ADAS systems. Mr. Yang was with HiRain Technologies and specialised in developing the ADAS software and algorithms. Mr. Yang accomplished the Changan Auto project with his team in development of Lane Departure Warning in 2014. He set the products benchmark with the well-known Delphi and mobileye, and taking the technology in the leading domestic level.

Mr. Li Jiawen is the general manager of TUS Cloud Control. Mr. Li holds a Doctor of philosophy in Automobile Engineering from Tsinghua University, and has 10 years experiences in the technological research and development and management of core ICVs fields, including driving assistance system, connected vehicle systems and driver-vehicle interaction system. He was the director of department of industry and market planning and development of the Tsinghua University Suzhou Automotive Research Institute, and also the deputy director of the Intelligent and Connected Vehicle Center.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(CONTINUED)*

Mr. Zhao Xiaoyu is a chief technology officer of TUS Cloud Control. Mr. Zhao holds a Master degree in Computer Science and Technology from Beijing University of Posts and Telecommunications, and has 16 years experiences in telecommunication, internet related hardware and software design and development and management. He was engaged by the Telecommunication Center of Beijing University of Posts and Telecommunications, the China Education and Research Network (North China), the Beijing Research Center of France Télécom, Fluke Network and Sony Mobile, and responsible for scientific research, project management and department management.

Mr. Xuan Zhiyuan is the vice president of the Company and also the chief operating officer of TUS Cloud Control. Mr. Xuan holds a Master degree and a Bachelor degree in Automobile Engineering from Tsinghua University. He is a chartered engineering consultant of China National Association of Engineering Consultants and has also obtained the practicing certificate of fund management from Asset Management Association of China. He was with China International Engineering Consulting Corporation and has over 7 years experiences in industrial policy planning & consultation and project consultation and evaluation with total appraised project value of over RMB300 billion. He has in-depth understanding and rich experiences in the industry of traditional automobile, new energy vehicles and also intelligent and connected vehicles.

REPORT OF THE DIRECTORS

The Directors have the pleasure in presenting their report together with the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in production and sale of ADAS and other automotive components, car-carried purifiers, car trading and provision of financing service for leasing motor vehicles and equipment. The principal activities and other particulars of its subsidiaries are set out in note 22 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group and an analysis of the Group's performance using financial key performance indicators during the year are provided in the Chairman's Statement and Management Discussion And Analysis on pages 3 to 22 of this report. In addition, discussions on the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the Environmental, Social and Governance Reports disclosed on pages 56 to 63.

The principal risks and uncertainties facing the Group are disclosed in Management Discussion And Analysis under section headed "Principal Risks and Uncertainties" on pages 20 to 22 on this report. Details of the Group's compliance with relevant laws and regulations are set out in Management Discussion and Analysis under the section headed Compliance with Relevant Laws and Regulations. Particulars of important events affecting the reporting entity that have occurred since the end of the financial year are disclosed in Management Discussion and Analysis under section headed "Events Subsequent to the Year Under Review" on page 19 of this report. An indication of likely future development of the Group is disclosed in Management Discussion And Analysis under section headed "Future Plans for Material Investments" on page 16 of this report.

RESULTS

The loss of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 70 to 73 and pages 186 to 187.

FINAL DIVIDENDS

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

CHARITABLE DONATIONS

No donation was made by the Group during the year (2017: HK$Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2018 and the published combined financial information of the Group for the four years ended 31 December 2014, 2015, 2016 and 2017 as extracted from the audited financial statements and restated as appropriate, is set out on page 192. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

ISSUE OF SHARES

During the year ended 31 December 2018, a total of 395,000,000 ordinary shares of HK$0.01 each in the share capital of the Company were issued at the issue price of HK$0.537 per share. Details of the issue of shares are set out in Management Discussion And Analysis under section headed "Connected Transactions".

FIXED ASSETS

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

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 36 to the consolidated financial statements and consolidated statement of changes in equity, respectively.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 36 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association") although there are no restrictions against such rights under the law in the Cayman Islands.

BANK LOANS AND OTHER LOANS

Particulars of bank loans and other loans as at 31 December 2018 are set out in note 32 to the consolidated financial statements.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	34%	
Five largest customers in aggregate	72%	
The largest supplier		31%
Five largest suppliers in aggregate		52%

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

DIRECTORS

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

Executive Directors

Mr. Ma Chi Kong Karl *(Chairman)*
Mr. Shen Xiao
Mr. Du Peng
Mr. Woo Kar Tung Raymond (Resigned on 7 June 2018)
Ms. Cheung Joanna Wai Sze (Resigned on 23 July 2018)

Non-executive Directors

Mr. Tsang Ling Biu, Gilbert
Mr. Qin Zhiguang (Appointed on 27 March 2018)
Mr. Yang Ming (Resigned on 24 June 2018)

Independent non-executive Directors

Hon. Quat Elizabeth *(JP)*
Mr. Poon Chiu Kwok
Mr. Wong Yuk Lun, Alan
Mr. Chen Jin (Resigned on 24 June 2018)

According to article 87(1) of the articles of association of the Company, not less than one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Ma Chi Kong, Karl being an executive Director, Mr. Tsang Ling Biu, Gilbert, being a non-executive Director and Hon. Quat Elizabeth, being an independent non-executive Director, will retire as Directors and, being eligible, will offer themselves for reelection as Directors at the annual general meeting.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 23 to 27 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' REMUNERATION

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are determined by the Company's board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

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

As at 31 December 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:

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(CONTINUED)*

Long positions in issued shares

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	24.18%
Du Peng	Beneficial Owner	–	13,920,000	1.05%
Shen Xiao	Beneficial Owner	50,000,000	123,773,894	13.13%
Cheung Joanna Wai Sze (note 3)	Beneficial Owner	–	9,280,000	0.70%
Tsang Ling Biu, Gilbert	Beneficial Owner	–	4,640,000	0.35%
Sheng Ruzhi (note 4)	Beneficial Owner	1,872,000	4,640,000	0.49%

Notes:

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. Ma Chi Kong Karl has an interest in the long position of 100,000,000 shares underlying the 0% convertible bond due 2023 in the principal amount of HK$53,700,000 issued by the Company on 21 June 2018. 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 31 December 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 and the above-mentioned figures of the corresponding long position held by him are as of even dates.

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 SCHEMES

The Company operates a share option scheme (the "Scheme") for the issuance of in aggregate no more than 10% in the nominal amount of the aggregate of shares in issue on 19 June 2009 ("2009 Share Option Scheme"). Following the refreshment of the scheme mandate limit as approved by shareholders at the general meeting on 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 principal terms of the 2009 Share Option Scheme was disclosed in the circular of the Company issued on 29 April 2009.

The total number of securities available for issue under the 2009 Share Option Scheme as at 31 December 2018 was 82,538,488 shares which represented approximately 6.24% of the issued share capital of the Company as at 31 December 2018.

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

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

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

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

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

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

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

(3) the nominal value of the shares.

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 are set out in the announcement of the Company published on even date.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(CONTINUED)*

During the year ended 31 December 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 as below:

			Number of share options						
Name	Date of grant	Exercise period	As at 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2018	Exercise price per share
Existing Directors									
Ma Chi Kong Karl	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	–	–	–	–	9,280,000	0.822
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
Tsang Ling Biu, Gilbert	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	–	–	–	–	4,640,000	0.820
Former Directors									
Sheng Ruzhi (resigned on 31 August 2017)	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	–	–	–	–	4,640,000	0.820
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 (Resigned on 23 July 2018)	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	–	–	–	–	9,280,000	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
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	

The 2009 Share Option Scheme had a term of 10 years and will expire on 19 June 2019. In view of the expiry of the 2009 Share Option Scheme, the Board proposes to recommend to the Shareholders to approve the adoption of the New Share Option Scheme in the forthcoming annual general meeting. The New Share Option Scheme will become effective after all the conditions precedent have been fulfilled.

As at 31 December 2018, there were 59,080,000 outstanding options under the 2009 Share Option Scheme. The expiry of the 2009 Share Option Scheme will not in any event affect the terms of the grant of the options that have already been granted thereunder and the abovementioned outstanding options continue to be subject to the provisions of the 2009 Share Option Scheme.

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2018, the following persons (other than the Directors and chief executives of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Name of shareholders	Note	Capacity	Number of ordinary shares of the Company held	Approximately percentage of total shares of the Company (note 7)
Tuspark Venture Investment Ltd. ("Tuspark Venture")	1 and 3	Beneficial owner	323,028,696	24.41%
Tus-Holdings Co., Ltd. ("Tus-Holdings")	1	Interests of controlled corporation	323,028,696	24.41%
Tsinghua Holdings Co., Ltd. ("Tsinghua Holdings")	2	Interests of controlled corporation	323,028,696	24.41%
Beijing Baijun Investment Company Limited ("Beijing Baijun")	2	Interests of controlled corporation	323,028,696	24.41%
Wang Jiwu	2	Interests of controlled corporation	323,028,696	24.41%
Tsinghua University	2	Interests of controlled corporation	323,028,696	24.41%
C.K. Pacific Limited ("C.K. Pacific")	4	Beneficial owner	42,986,425	3.25%
Lucky Target Limited ("Lucky Target")	4	Beneficial owner	26,018,099	1.97%
CM Securities Investment Limited ("CMSI")	5	Beneficial owner	109,853,894	8.30%
China Minsheng Financial Holding Corporation Limited ("CMFHCL")	5	Interests of controlled corporation	109,853,894	8.30%
China Minsheng Investment Corporation Limited	5	Interests of controlled corporation	109,853,894	8.30%
Munsun Smart Mobility Fund LP ("Munsun Smart")	6	Beneficial owner	109,853,894	8.30%

REPORT OF THE DIRECTORS

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

Notes:

1. Tuspark Venture is the beneficial owner of 213,174,802 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 213,174,802 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. C.K. Pacific and Lucky Target are 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.

5. 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.

6. 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.

7. The approximate percentage of shareholding is calculated based on 1,323,184,888 shares in issue as at 31 December 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.

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

Short positions in underlying shares of the Company

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

Save as disclosed above, as at 31 December 2018, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PERMITTED INDEMNITY OF DIRECTORS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, which were not contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year ended 31 December 2018.

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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2018, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director or an entity connected with a Director had material interest, whether directly or indirectly, subsisted at the end of the period or any time during the year ended 31 December 2018.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

AUDITORS

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

On behalf of the Board

Ma Chi Kong Karl
Chairman

Hong Kong, 28 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

Saved 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 the Corporate Governance Report (the "Corporate Governance Code") set out in the Appendix 14 to the Listing Rules, during the year ended 31 December 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 interest of the shareholders of the Company as a whole.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year under review, the Company has adopted the model code set out in the Appendix 10 of the Listing Rules for securities transactions by Directors. The Company, having made specific enquiry of all Directors, confirmed that they have complied with the required standard set out in the adopted code regarding their securities transactions during 2018.

BOARD OF DIRECTORS

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

As at the publication of this report, the Board comprises 8 Directors, including 3 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors, in compliance with the requirement of Listing Rules which states that "every board of directors of an issuer must include at least 3 independent non-executive directors which represent at least one-third of the board". There is no relationship (including financial, business, family or other material/relevant relationship) between any of the Directors. Details of the biographies of individual Directors and their range of specialist experience and expertise are set out on pages 23 to 25 of this report.

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

Executive Directors

Mr. Ma Chi Kong Karl *(Chairman)*
Mr. Shen Xiao
Mr. Du Peng
Mr. Woo Kar Tung Raymond (Resigned on 7 June 2018)
Ms. Cheung Joanna Wai Sze (Resigned on 23 July 2018)

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Non-executive Directors

Mr. Tsang Ling Biu, Gilbert

Mr. Qin Zhiguang (Appointed on 27 March 2018)

Mr. Yang Ming (Redesignated from an executive Director to a non-executive Director on 29 January 2018 and resigned on 24 June 2018)

Independent non-executive Directors

Hon. Quat Elizabeth *(JP)*

Mr. Poon Chiu Kwok

Mr. Wong Yuk Lun, Alan

Mr. Chen Jin (Resigned on 24 June 2018)

The primary functions of the Board include:

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

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

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

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

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

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

BOARD OF DIRECTORS *(CONTINUED)*

Experience

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

Appointment, Re-election and Removal of Directors

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

Non-Executive Directors

The Company has complied with the requirement to appoint a sufficient number of independent non-executive Directors as set out in Rule 3.10(1) of the Listing Rules. Throughout the year ended 31 December 2018 and up to the publication of this report, the Company has three independent non-executive Directors, namely Hon. Elizabeth Quat *(JP)*, Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan.

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

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

Directors' and Officers' Insurance

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Board Diversity

The Company recognises and embraces the benefits of building a diverse and inclusive Board, and agrees to increase diversity at Board level continuously, in order to achieve and maintain a sustainable development and a competitive advantage.

Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining the optimum composition of the Board and should be balanced appropriately when possible and necessary.

Underpinned by meritocracy, all Board appointments will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

The Board annually discusses and establishes measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

During the Year, the Board has adopted and the Company has achieved the following measurable objectives:

(1) at least one-third of the Board is composed of independent non-executive Directors;

(2) at least one Director is a qualified accountant;

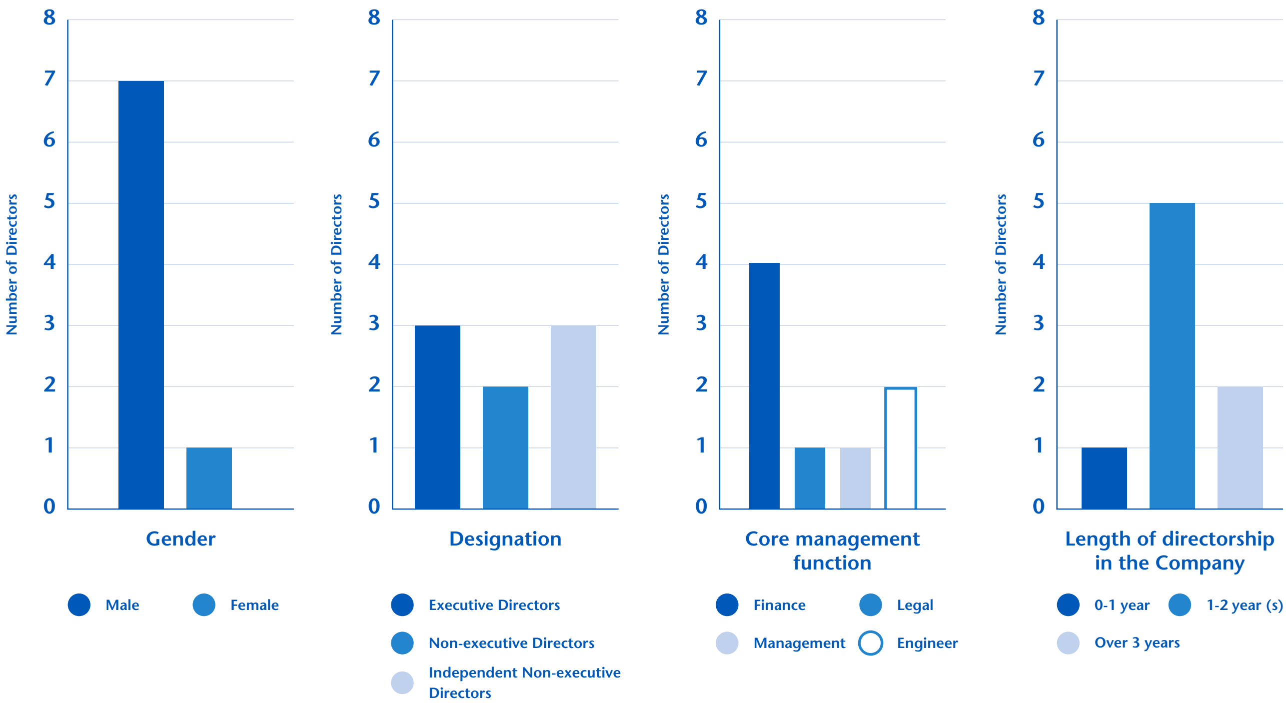
(3) at least one Director has relevant experience in the automotive industry; and

(4) at least one Director has relevant experience in finance.

BOARD OF DIRECTORS *(CONTINUED)*

Board Diversity *(Continued)*

As at 31 December 2018, composition of the Board is disclosed as below:



The Board meets at least four times per year at approximately quarterly intervals, to discuss the Group's overall strategy, operation and financial performance. Measures have been taken to ensure the Board receives all necessary and up to standard information in a timely manner in order to effectively discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matters is specifically addressed to the Board for its decision. Topics discussed at these quarterly Board meetings include: overall strategies, enterprise risk management and internal control, major acquisitions and disposals, annual budgets, interim and annual results, recommendations on Directors' appointment(s) or reappointment(s), matters relating to share capital, approval of major capital projects, dividend policies, and other significant operational and financial matters. All businesses transacted at individual Board meetings are recorded in the minutes of the respective meeting. All Board members have access to the advice and services of the company secretary. If necessary, Directors also have resource to external professional advice at the Group's expense. During the intervals between Board meetings, individual Directors are provided with appraisals of all major changes that may affect the Group's businesses.

All new Directors, if any, will be briefed about their duties, responsibilities and obligations as a director of a listed company. Newly-appointed Directors are also encouraged to discuss with the Chairman any additional information or training they may require, in order to discharge their duties in a more effective manner.

In accordance with the Articles of Association of the Company, every member of the Board shall retire by rotation at the annual general meeting of the Company at least once every three years. The retiring Directors shall be eligible for re-election at the same annual general meeting. The Board considers that the Group has sufficient and appropriate liability insurance to cover its Directors and senior management team against any legal liability arising from their performance of their duties.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Corporate Governance Function

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

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

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

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

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

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

Attendance of Meeting(s)

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

Members of the Board, who are well-informed of their duties and responsibilities, held a total of eleven meetings in 2018. The Directors are given sufficient time to review documents and information relating to matters to be discussed in board meetings in advance.

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

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

BOARD OF DIRECTORS *(CONTINUED)*

Attendance of Meeting(s) *(Continued)*

Details of Directors' attendance at board meetings, committee meetings and general meetings held in 2018 are set out as follows:

	Attendance				
	General Meetings	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Ma Chi Kong Karl *(Chairman)*	2/2	8/11	N/A	2/2	2/2
Mr. Shen Xiao	2/2	10/11	N/A	N/A	2/2
Mr. Du Peng	2/2	8/11	N/A	N/A	N/A
Mr. Woo Kar Tung Raymond (Resigned on 7 June 2018)	N/A	2/11	N/A	N/A	N/A
Ms. Cheung Joanna Wai Sze (Resigned on 23 July 2018)	0/2	5/11	N/A	N/A	N/A
Non-executive Directors					
Mr. Tsang Ling Biu, Gilbert	2/2	9/11	4/4	N/A	N/A
Mr. Qin Zhiguang (Appointed on 27 March 2018)	2/2	7/11	N/A	N/A	N/A
Mr. Yang Ming (Redesignated from an executive Director to a non-executive Director on 29 January 2018 and resigned on 24 June 2018)	0/2	2/11	N/A	N/A	N/A
Independent non-executive Directors					
Hon. Quat Elizabeth *(JP)*	2/2	10/11	4/4	2/2	2/2
Mr. Poon Chiu Kwok	2/2	11/11	4/4	2/2	2/2
Mr. Wong Yuk Lun, Alan	2/2	9/11	3/4	2/2	2/2
Mr. Chen Jin (Resigned on 24 June 2018)	0/2	4/11	0/4	N/A	1/2

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Training, Induction and Continuing Development of Directors

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

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

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

	Category of continuing professional development
Executive Directors	
Mr. Ma Chi Kong Karl *(Chairman)*	A, B
Mr. Shen Xiao	A, B
Mr. Du Peng	A, B
Mr. Woo Kar Tung Raymond (Resigned on 7 June 2018)	A, B
Ms. Cheung Joanna Wai Sze (Resigned on 23 July 2018)	B
Non-executive Directors	
Mr. Tsang Ling Biu, Gilbert	A, B
Mr. Qin Zhiguang (Appointed on 27 March 2018)	A, B
Mr. Yang Ming (Redesignated from an executive Director to a non-executive Director on 29 January 2018 and resigned on 24 June 2018)	B
Independent non-executive Directors	
Hon. Quat Elizabeth *(JP)*	A, B
Mr. Poon Chiu Kwok	A, B
Mr. Wong Yuk Lun, Alan	B
Mr. Chen Jin (Resigned on 24 June 2018)	B

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

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

ACCOUNTABILITY AND AUDIT

The management of the Company is responsible for providing all relevant information to the Board, giving members with sufficient explanation and information they need to discharge their responsibilities. Board members are provided with monthly updates, including sales updates, projects launched, upcoming projects and financial position, which give the Board members a balanced and understandable assessment of the performance, position and prospects of the Group.

The Directors are responsible for overseeing the preparation of financial statements of each financial year. In preparing the financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, approved adoption of all applicable Hong Kong Financial Reporting Standards in effect, made judgments and estimates that are appropriate, and prepared the financial statements on a going concern basis. The management is of the view that the Group will continue as a going concern.

The Group has announced in its annual and interim results in a timely manner within three months and two months after the end of the relevant period, as required under the Listing Rules.

MANAGEMENT FUNCTIONS

The Board decides on corporate strategies, establishes and maintains appropriate and effective risk management and internal control systems, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the Shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim accounts for the Board's approval, implementation of strategies approved by the Board, monitoring of operating budgets, implementation of internal controls procedures, and ensuring compliance with relevant statutory requirements and other rules and regulations.

BOARD COMMITTEES

In compliance with the CG Code, the Company has set up its Audit Committee, Nomination Committee, and Remuneration Committee with clearly defined written terms of reference adopted in compliance with the Corporate Governance Code.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

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

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

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

On 24 June 2018, Mr. Chen Jin ceased to be a member of the Audit Committee.

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

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 and three independent non-executive Directors:

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(CONTINUED)*

On 24 June 2018, Mr. Chen Jin ceased to be a member of the Remuneration Committee.

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

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

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

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

	Number of individuals
HK$ Nil – HK$1,000,000	13

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

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

The duties of the Nomination Committee are, among others, determining policy for the nomination of directors, including the nomination procedures, processes and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the Year. The Nomination Committee reviews the structure, size and composition of the Board, to makes recommendations on any proposed changes to the Board and on the selection of individuals nominated for directorships, and reviews the board diversity policy adopted by the Company, assess the independence of independent non-executive Directors, to review regularly the contribution required from a Director to perform his/her responsibilities, and to review and monitor the training and continuous professional development of Directors. For more information on the Company's policy on board diversity, please refer to the section headed "Board diversity" in this report.

The Nomination Committee will assess the suitability of a proposed candidate with reference to, among others, reputation for integrity, accomplishment and experience in management, finance and information technology related industry, in particular, the automobile, cloud computing, and capital financing markets, and commitment in respect of available time and relevant interest.

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

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

On 24 June 2018, Mr. Chen Jin ceased to be a member of the Nomination Committee.

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

COMPANY SECRETARY

Ms. Li Fung Shan, the company secretary of the Company as at 31 December 2018 has confirmed the completion of relevant professional training of not less than 15 hours. On 25 January 2019, Ms. Li Fung Shan resigned as the company secretary of the Company and Mr. Lee Chi Yung was appointed as the company secretary of the Company.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

Directors' Responsibility for Financial Reporting

With the assistance of the finance department of the Company, the Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2018 and confirm that the financial statements contained herein give a true and fair view of the results and state of affairs of the Group for the year under review. The Directors consider that the financial statements have been prepared in conformity with the statutory requirements including the Hong Kong Companies Ordinances and the Listing Rules and the applicable accounting standards including the International Financial Reporting Standards and Hong Kong Financial Reporting Standards. These statutory requirements and applicable accounting standards have been consistently used and applied and reasonable judgements and estimates are properly made. The Board aims to present a clear and balanced assessments of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. During the year of 2018, the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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

DIVIDEND POLICY

The Company considers stable and sustainable returns to shareholders of the Company to be our goal. In deciding whether to propose a dividend and in determining the dividend amount, the Board takes into account, among others, the Group's performance, financial position, cash flows, investment requirements and future prospects, and other factors of the Company which the Directors consider relevant, and in the interests of the shareholders of the Company as a whole.

The Company's distribution of dividends shall also comply with any restrictions under the applicable laws of the Cayman Islands, the laws of Hong Kong, the Listing Rules and the Articles of Association of the Company, as well as subject to the approval of shareholders of the Company.

The Company will continually review the dividend policy from time to time. There is no guarantee that any particular amount of dividends will be distributed for any specific periods.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS' REMUNERATION

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

Type of services provided	Amount of fees (HK$)
Audit services	900,000
Non-audit services	680,000
Total	1,580,000

RISK MANAGEMENT AND INTERNAL CONTROL

Given the Group's current simple operating structure, as opposed to a separate internal audit department, the Board oversees management in the design, implementation and monitoring of the risk management and internal control systems directly. It is the responsibility of the Board to maintain an effective internal control system in order to ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The Audit Committee and the Board review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

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

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

The Group has established the risk management framework in accordance with the enterprise risk management framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") which organised into five interrelated components: governance and culture, strategy and objective-setting, performance, review and revision, and information, communication, and reporting. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

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

RISK MANAGEMENT AND INTERNAL CONTROL *(CONTINUED)*

In addition, the Board and the Audit Committee, with the assistance of the independent internal control expert, will monitor the enterprise risk management and internal control systems of the Group on an on-going basis. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

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

During the Year, the Board has engaged an external independent internal control expert to conduct a review on the enterprise risk management and internal control systems of the Group which has covered major and material controls in areas of financial, operations, compliance and risk management of the Company. Review reports of the deficiencies and recommendations on enterprise risk management and internal control systems have been submitted to Audit Committee and the Board during the Year.

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

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

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

Communications with Shareholders and Investors

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

- delivery of the interim and annual results and reports to all shareholders;
- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

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

- establishing dedicated personnel for liaison with investors and analysts by answering their questions;
- gathering, in a timely manner, opinions and comments from analysts and investors on the operations of the Company, compiling reports thereon at regular intervals and selectively adopting them in the Company's operations;
- making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials and press releases of the Company, etc.; and
- actively communicating with various parties, participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

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

Constitutional Documents

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

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

Enquires to the Board

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

Unit 416, Level 4,
Core F, Cyberport 3,
100 Cyberport Road,
Hong Kong
Email: info@tus-i.com

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this report in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") contained in Appendix 27 and the requirements set out in Rule 13.91 of the Listing Rules. The report describes the Group's policies that were designed to fulfill the Group's obligations with respect to sustainable development and social responsibilities areas, as required by the ESG Guide. This report covers the operational information, which includes data and activities of the Group's head offices in Hong Kong and the PRC, and its reporting period is for the financial year 2018. In respect of the corporate governance practices of the Company, please refer to the "Corporate Governance Report" section of this annual report.

A. ENVIRONMENTAL PROTECTION

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

A.1 Emissions

The Group is governed by, and has complied with, the Law of Environmental Protection of the People's Republic of China. Its operation does not generate significant air emissions or hazardous waste. Limited workplace effluents and wastes are attributed to the operation of the Group's offices. All workplace effluents are discharged into the municipal sewer systems for collective treatment in accordance with the "Effluent Water Quality Standards for the Urban Sewage System" and workplace wastes are treated by the property management companies maintaining the Group's offices. Our greenhouse gases emissions are indirectly, principally resulting from electricity consumed at the Group's workplace as well as from business travel by employees. In 2018, the Group was not involved into any confirmed violations or any appeals that were relevant to the environmental protection and had significant influence on the Group (2017: nil).

A. ENVIRONMENTAL PROTECTION *(CONTINUED)*

A.1 Emissions *(Continued)*

Table 1: Emissions summary

	KPI	Unit	**2018**	2017
Emissions of Air Pollutant by Vehicles				
Emission of NOx	A1.1 to A1.3	g	**10,493**	19,348
Emission of SOx	A1.1 to A1.3	g	**213**	122
Emission of PM	A1.1 to A1.3	g	**773**	1,425
Greenhouse Gas Emission (Scope 1, 2 and 3)	A1.1 to A1.3			
Emission by vehicles (Scope 1)	A1.1 to A1.3	Tons	**29**	20
Emission by energy consumption (Scope 2)	A1.1 to A1.3	Tons	**1,029**	132
Emission by commercial business travel by airplanes and train (Scope 3)	A1.1 to A1.3	Tons	**244**	147
Total emission of greenhouse gas	A1.1 to A1.3	Tons	**1,302**	299
Discharge Volume of Non-hazardous Waste				
Packaging material used	A1.4	Tons	**37**	3

Scope 1: Direct emissions from operations that are owned or controlled by the company.

Scope 2: "Energy indirect" emissions resulting from the generation of purchased or acquired electricity, heating and cooling consumed within the company.

Scope 3: All other indirect emissions that occur outside the company, including both upstream and downstream emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL PROTECTION *(CONTINUED)*

A.2 Use of Resources

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

Table 2: use of resources summary

	KPI	Unit	**2018**	2017
Usage of Resource				
Total electric power consumption	A2.1	Kwh	**1,230,349**	167,666
Total fuel consumption (vehicle)		Liter	**10,915**	8,320
Total consumption of water	A2.2	Tons	**5,386**	573
Packaging material used	A2.5	Tons	**37**	3

Energy Management

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

Paper Reduction

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

Other Measures

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL PROTECTION *(CONTINUED)*

A.3 Environment and Natural Resources

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

Environmental Performance Data

The Group has collected data for all consumed resources during its business operation and calculated the emission of greenhouse gas and production of solid wastes during the reporting period for the financial year 2017 and 2018. The relevant data during the reporting period is disclosed under "A.1 Emission" above.

B. SOCIAL COMMITMENT

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

B.1 Employment and Labour Practices

The Group creates a harmonious working environment and provides a diversified career development platform for employees, in order to achieve the common growth of enterprises and employees. The Group strictly complies with national and local labor laws and regulations, such as the Employment Ordinance of the laws of Hong Kong and Labour Law of the People's Republic of China. We established a recruitment and selection process and explained each key step of the recruitment process, so that the use of child and forced labor has been avoided. The Group treats each are fairly and equally regardless of age, gender, race, ethnicity, marital and family status, religion and physical disabilities, provide equal employment and development opportunities and ensures all staff are well-respected.

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT *(CONTINUED)*

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

Below sets out the basic information of employees based on gender, age and geographical region:

Table 3: employees based on gender as of 31 December 2018

	Gender	
	Male	**Female**
Number of employees	**243**	**181**
Approximate percentage to the total number of employees in the Group	**57%**	**43%**

Table 4: employees based on gender as of 31 December 2017

	Gender	
	Male	Female
Number of employees	222	151
Approximate percentage to the total number of employees in the Group	60%	40%

Table 5: employees based on age as of 31 December 2018

	Age				
	18 to 25	**26 to 35**	**36 to 45**	**46 to 55**	**Over 55**
Number of employees	**83**	**256**	**73**	**9**	**3**

Table 6: employees based on age as of 31 December 2017

	Age				
	18 to 25	26 to 35	36 to 45	46 to 55	Over 55
Number of employees	86	207	68	10	2

B. SOCIAL COMMITMENT *(CONTINUED)*

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

Table 7: employees based on geographical region as of 31 December 2018

	Geographical region	
	Hong Kong	**Mainland China**
Number of employees	**19**	**405**

Table 8: employees based on geographical region as of 31 December 2017

	Geographical region	
	Hong Kong	Mainland China
Number of employees	22	351

B.2 Health and Safety

Work safety is the foundation and security for the sustainable development of an enterprise. A comprehensive occupational health and safety management system is vital for enhancing safety performance. The Group strictly complies with local labor laws and regulations related to occupational safety and health ordinance, such as the Occupational Safety and Health Ordinance of the laws of Hong Kong and Code of Occupational Disease Prevention of the People's Republic of China. Employees are asked to stringently abide by all safety rules and regulations, and utilise available and applicable protection measures at all times to avoid accidents and protect themselves and coworkers from safety risks in accordance with the relevant laws and regulations. There was no case of fatality or injury case to workplace incident in the reporting year. The Group carries out the cleaning of office area and safety inspection at regular intervals with an aim to maintain a clean, tidy and safe working environment.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT *(CONTINUED)*

B.3 Development and Training

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

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

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

B.4 Labour Standards

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

B.5 Supply Chain Management

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

B. SOCIAL COMMITMENT *(CONTINUED)*

B.6 Product Responsibility

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

The Group pays high attention to the quality and safety of services. The Group sets up relevant quality and safety inspection policies for different type of services, communicates and confirms the working plan with customers before the project starts and actively coordinates the process of the project with customers. In 2018, the Group have not has any complaints or request to terminate projects due to poor quality and safety (2017: nil). If a complaint should arise, the Group will immediately assess the complaint and conduct an internal investigation into the matter to identify the source of the issue. The Group has close connection with customers. If the customers do not satisfy with the quality and the safety of the services, the Group arranges sufficient channels and staffs for customers to communicate and provide solutions to the problems as soon as possible.

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

During the year ended 31 December 2018, the Group was not aware of any incidents of non-compliance with relevant laws and regulations that have a significant impact on the issue relating to health and safety, advertising, labelling and privacy matters relating to products provided and methods of redress (2017: nil).

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

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

The Group encourages whistleblowing whereas an employee or a third party could report any concern about suspected misconduct, malpractice or irregularity, and conflict of interest in strict confidence.

During the year ended 31 December 2018, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption (2017: nil).

B.8 Community Investment

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

INDEPENDENT AUDITORS' REPORT

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

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

TO THE SHAREHOLDERS OF TUS INTERNATIONAL LIMITED
(Incorporated in the Cayman Islands limited liability)

OPINION

We have audited the consolidated financial statements of TUS International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 70 to 191, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on intangible assets	
Refer to note 20 to the consolidated financial statements.	
The Group has carrying amount of intangible assets of HK$84,179,470 as at 31 December 2018. Management performed impairment assessment of intangible assets and concluded that no impairment loss was recognised relating to sale of automotive electronic products and safety spare parts business. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation was obtained in order to support the management's estimates.	Our procedures in relation to the management's impairment assessment on intangible assets included: • Evaluating of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking on a sampling basis, the accuracy and relevance of the input data used. We consider the management conclusion to be consistent with the available information.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter

Assessing the fair value of financial assets at fair value through other comprehensive income

Refer to note 25 to the consolidated financial statements.

At 31 December 2018, the fair value of the Group's financial assets at fair value through other comprehensive income of HK$314,616,087 was classified under the fair value hierarchy as level 3 financial instruments and change in fair value of financial assets at fair value through other comprehensive income of HK$100,700,755 was recognised to other comprehensive income during the year ended 31 December 2018.

The valuation of the Group's financial assets at fair value through other comprehensive income is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant judgement.

We identified assessing the fair value of financial assets at fair value through other comprehensive income as a key audit matter because of the degree of complexity involved in valuing financial assets at fair value through other comprehensive income and because of the degree of judgement exercised by management in determining the inputs used in the valuation methods.

Our audit procedures to assess the fair value of financial instruments included the following:

- Engaging our valuation specialists to evaluate the valuation methods used by the Group to value level 3 financial instruments and to perform, on sample basis, independent valuations for level 3 financial instruments and compare these valuations with the Group's valuations. This included comparing the Group's valuation methods with our knowledge of current market practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations;

- Assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

We consider the management conclusion to be consistent with the available information.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill Refer to note 21 to the consolidated financial statements. The Group has carrying amount of goodwill of HK$164,772,765 relating to the finance lease of motor vehicles and equipment business and development, production and sales of ADAS and other automotive components business as at 31 December 2018. The management performs an annual impairment test on the recoverability of the goodwill which is subjective in nature due to judgements having to be made of future performance. The valuation of goodwill performed by an independent professional external valuer based on the value in use calculation. The valuation requires the application of significant judgement and estimation by the management in determining the appropriate valuation methodology to be used, use of subjective assumptions and various unobservable inputs. The valuation is sensitive to underlying assumptions applied by the valuer such as pre-tax discount rates and growth rate used and cash flow projection which can have a significant impact to the valuation.	Our procedures in relation to the management's impairment assessment on goodwill included: • Assessing the valuation methodology; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Checking on sample basis, the accuracy and relevance of the input data used; • Assessing the competence, expertise and objectivity of the management expert who calculates the recoverable amount of goodwill; and • Engaging a valuation expert to evaluate the assumptions and methodologies used in the calculation. We consider the management conclusion to be consistent with the available information.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$	2017 HK$
Revenue	7	**457,237,213**	202,692,616
Cost of sales		**(396,454,551)**	(175,975,718)
Gross profit		**60,782,662**	26,716,898
Other revenue	8	**3,260,864**	4,236,208
Other gains and losses	9	**(9,001,952)**	(5,179,727)
Research and development expenses	10	**(10,095,011)**	(5,120,836)
Selling and distribution expenses		**(12,152,427)**	(2,779,068)
Administrative expenses		**(105,445,940)**	(70,531,625)
Finance costs	11	**(53,969,334)**	(23,823,916)
Share of loss of an associate	23	**(1,587,696)**	(3,429,909)
Share of loss of a joint venture	24	**(1,868,704)**	(934,076)
Loss before taxation	12	**(130,077,538)**	(80,846,051)
Taxation	13	**1,608,306**	10,322,568
Loss for the year		**(128,469,232)**	(70,523,483)
Other comprehensive (loss)/profit for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(42,100,757)**	4,654,130
Share of exchange differences of an investment in associates	23	**97,996**	38,670
Share of exchange differences of an investment in a joint venture	24	**14,247**	4,619
Reclassification adjustment of exchange differences upon disposal of subsidiaries		**(13,221,081)**	–
Items that will not be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income	25	**(100,700,755)**	–
Other comprehensive (loss)/profit for the year		**(155,910,350)**	4,697,419
Total comprehensive loss for the year		**(284,379,582)**	(65,826,064)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$	2017 HK$
Loss for the year attributable to:			
Owners of the Company		**(122,384,844)**	(75,283,337)
Non-controlling interests		**(6,084,388)**	4,759,854
		(128,469,232)	(70,523,483)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(273,019,105)**	(73,917,018)
Non-controlling interests		**(11,360,477)**	8,090,954
		(284,379,582)	(65,826,064)
Loss per share			
– Basic and diluted (HK cents)	17	**(11.69)**	(8.11)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$	2017 HK$
Non-current assets			
Fixed assets			
– Property, plant and equipment	18	**26,050,469**	20,654,257
Construction in progress	19	**8,186,268**	2,635,365
Deposit	27	**45,539,400**	48,029,760
Finance lease receivables	28	**16,689,888**	58,062,691
Intangible assets	20	**84,179,470**	40,625,172
Goodwill	21	**164,772,765**	164,772,765
Interests in associates	23	**–**	6,608,761
Interest in a joint venture	24	**1,096,586**	611,044
Available-for-sale investments	25	**–**	357,595,055
Financial assets at fair value through other comprehensive income	25	**314,616,087**	–
		661,130,933	699,594,870
Current assets			
Inventories	26	**91,767,498**	83,653,878
Trade and bills receivables, prepayments and other receivables	27	**304,983,330**	238,025,633
Finance lease receivables	28	**76,729,195**	95,150,945
Pledged bank deposits	29	**50,344,939**	63,177,893
Cash and cash equivalents	29	**53,653,443**	63,446,857
		577,478,405	543,455,206
Current liabilities			
Trade and bills payables and other payables	30	**234,954,138**	286,049,209
Contract liabilities		**29,754,161**	–
Current tax payable	31	**969,505**	1,268,036
Borrowings	32	**133,335,973**	83,983,628
Convertible bonds	33	**58,282,301**	–
		457,296,078	371,300,873
Net current assets		**120,182,327**	172,154,333
Total assets less current liabilities		**781,313,260**	871,749,203

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	**2018** HK$	2017 HK$
Non-current liabilities			
Deferred tax liabilities	31	**4,450,766**	4,396,883
Convertible bonds	33	**329,443,363**	334,352,226
		333,894,129	338,749,109
Net assets		**447,419,131**	533,000,094
Capital and reserves			
Share capital	36	**13,231,849**	9,281,849
Reserves	36	**404,795,989**	478,837,851
Equity attributable to owners of the Company		**418,027,838**	488,119,700
Non-controlling interests		**29,391,293**	44,880,394
Total equity		**447,419,131**	533,000,094

Approved by the Board of Directors on 28 March 2019 and signed on its behalf by:

Ma Chi Kong Karl
Chairman

Du Peng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company												
	Share capital HK$	Share premium HK$	Statutory surplus reserve HK$	Exchange reserve HK$	Financial assets at fair value through other comprehensive income reserve HK$	Other reserve HK$	Share option reserve HK$	Convertible bonds reserves HK$	Warrants reserve HK$	(Accumulated losses)/ retained profits HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
As at 31 December 2016 and 1 January 2017	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)/profit for the year	–	–	–	–	–	–	–	–	–	(75,283,337)	(75,283,337)	4,759,854	(70,523,483)
Other comprehensive profit for the year, net of income tax:													
Exchange differences on translation of financial statements of foreign operations	–	–	–	1,323,030	–	–	–	–	–	–	1,323,030	3,331,100	4,654,130
Share of exchange differences of an investment in associates	–	–	–	38,670	–	–	–	–	–	–	38,670	–	38,670
Share of exchange differences of an investment in a joint venture	–	–	–	4,619	–	–	–	–	–	–	4,619	–	4,619
Total comprehensive profit/(loss) for the year	–	–	–	1,366,319	–	–	–	–	–	(75,283,337)	(73,917,018)	8,090,954	(65,826,064)
Share-based payments	–	–	–	–	–	–	10,161,284	–	–	–	10,161,284	–	10,161,284
Lapse of share option	–	–	–	–	–	–	(294,009)	–	–	294,009	–	–	–
Changes in ownership interest in a subsidiary	–	–	–	–	–	(168,960)	–	–	–	–	(168,960)	168,960	–
Capital injection from non-controlling interests	–	–	–	–	–	1,788,164	–	–	–	–	1,788,164	45,281,001	47,069,165
Acquisition of subsidiaries (note 37)	–	–	–	–	–	–	–	–	–	–	–	37,899,031	37,899,031
Issue of convertible bond (note 33)	–	–	–	–	–	–	–	22,178,368	–	–	22,178,368	–	22,178,368
Deferred taxation of convertible bonds (note 31(b))	–	–	–	–	–	–	–	(3,906,931)	–	–	(3,906,931)	–	(3,906,931)
Issue of warrants for acquisition of subsidiaries (note 37)	–	–	–	–	–	–	–	–	5,040,560	–	5,040,560	–	5,040,560
As at 31 December 2017	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
Effect of adoption of HKFRS 9	–	–	–	–	8,066,436	–	–	–	–	(15,364,140)	(7,297,704)	–	(7,297,704)
As at 1 January 2018 (restated)	9,281,849	477,037,709	2,190,561	6,278,029	8,066,436	(47,369,209)	23,457,860	33,337,594	5,040,560	(36,499,393)	480,821,996	44,880,394	525,702,390
Loss for the year	–	–	–	–	–	–	–	–	–	(122,384,844)	(122,384,844)	(6,084,388)	(128,469,232)
Other comprehensive (loss)/profit for the year, net of income tax:													
Exchange differences on translation of financial statements of foreign operations	–	–	–	(36,824,668)	–	–	–	–	–	–	(36,824,668)	(5,276,089)	(42,100,757)
Share of exchange differences of an investment in associates	–	–	–	97,996	–	–	–	–	–	–	97,996	–	97,996
Share of exchange differences of an investment in a joint venture	–	–	–	14,247	–	–	–	–	–	–	14,247	–	14,247
Reclassification adjustment of exchange differences upon disposal of subsidiaries	–	–	–	(13,221,081)	–	–	–	–	–	–	(13,221,081)	–	(13,221,081)
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	(100,700,755)	–	–	–	–	–	(100,700,755)	–	(100,700,755)
Total comprehensive loss for the year	–	–	–	(49,933,506)	(100,700,755)	–	–	–	–	(122,384,844)	(273,019,105)	(11,360,477)	(284,379,582)
Share-based payments	–	–	–	–	–	–	2,435,003	–	–	–	2,435,003	–	2,435,003
Lapse of share option	–	–	–	–	–	–	(6,690,871)	–	–	6,690,871	–	–	–
Changes in ownership interest in a subsidiary (note 22)	–	–	–	–	–	(15,395,283)	–	–	–	–	(15,395,283)	(5,163,755)	(20,559,038)
Issue of shares, net of share issuing expense (note 36)	3,950,000	202,185,590	–	–	–	–	–	–	–	–	206,135,590	–	206,135,590
Issue of convertible bond (note 33)	–	–	–	–	–	–	–	20,418,727	–	–	20,418,727	–	20,418,727
Deferred taxation of convertible bonds (note 31(b))	–	–	–	–	–	–	–	(3,369,090)	–	–	(3,369,090)	–	(3,369,090)
Disposal of subsidiaries	–	–	(2,190,561)	–	–	48,988,413	–	–	–	(46,797,852)	–	1,035,131	1,035,131
As at 31 December 2018	**13,231,849**	**679,223,299**	**–**	**(43,655,477)**	**(92,634,319)**	**(13,776,079)**	**19,201,992**	**50,387,231**	**5,040,560**	**(198,991,218)**	**418,027,838**	**29,391,293**	**447,419,131**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$	2017 HK$
Operating activities			
Loss before taxation		**(130,077,538)**	(80,846,051)
Adjustments for:			
– Depreciation of property, plant and equipment	18	**5,366,400**	6,080,823
– Amortisation of intangible assets	20	**18,607,792**	1,913,343
– Finance costs	11	**53,969,334**	23,823,916
– Bank interest income	8	**(1,897,898)**	(2,274,242)
– Share of loss of an associate	23	**1,587,696**	3,429,909
– Share of loss of a joint venture	24	**1,868,704**	934,076
– Loss on disposal of property, plant and equipment	9	**508,652**	2,232,235
– Gain on disposal of subsidiaries	9	**(95,776)**	–
– Allowance for credit losses on trade receivables	9	**1,827,020**	–
– Reversal of credit losses on other receivables	9	**(1,838,323)**	–
– Impairment loss recognised on finance lease receivables	9	**–**	1,857,439
– Impairment loss recognised on intangible assets	20	**–**	3,581,132
– Impairment loss on interest in associate	23	**5,119,061**	–
– Share-based payments		**2,435,003**	10,161,284
Operating loss before changes in working capital		**(42,619,873)**	(29,106,136)
Increase in inventories		**(8,113,620)**	(7,239,833)
Increase in trade and bills receivables, prepayments and other receivables		**(91,742,733)**	(15,464,062)
Decrease/(increase) in finance lease receivables		**59,794,553**	(89,751,357)
Increase in trade and bills payables and other payables		**79,243,011**	54,144,646
Cash used in operations		**(3,438,662)**	(87,416,742)
Income tax paid	31	**(2,005,432)**	(505,750)
Net cash used in operating activities		**(5,444,094)**	(87,922,492)
Investing activities			
Purchase of property, plant and equipment	18	**(12,126,202)**	(11,514,273)
Payment for construction in progress	19	**(5,687,547)**	(2,158,083)
Purchase of intangible assets	20	**(65,745,463)**	(42,026,040)
Net cash outflow on disposal of subsidiaries		**(122,928)**	–
Acquisition of additional equity interest in a subsidiary		**(38,202,292)**	–
Bank interest received	8	**1,897,898**	2,274,242
Purchase of available-for-sale investments		**–**	(78,160,209)
Acquisition of financial assets at fair value through other comprehensive income		**(59,545,525)**	–
Purchase of investment in a joint venture	24	**(2,340,000)**	(1,540,501)
Net cash outflow on acquisition of subsidiaries	37	**–**	(131,807,286)
Placement of pledged bank deposits		**–**	(63,177,893)
Withdrawal of pledged bank deposits		**12,832,954**	–
Net cash used in investing activities		**(169,039,105)**	(328,110,043)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$	2017 HK$
Financing activities			
Issue of shares by subscription		**168,188,412**	–
Proceeds from bank loans		**83,678,648**	10,566,547
Repayment of bank loans		**(64,893,645)**	(14,168,779)
Proceeds from other loans		**43,241,870**	10,168,052
Repayment of other loans		**(6,830,910)**	(10,298,536)
Finance costs paid		**(30,868,950)**	(11,925,512)
Proceeds from issuing of convertible bond		–	300,000,000
Payment for transaction costs attributable to issuing of convertible bond		–	(1,500,000)
Capital injection from non-controlling interests		–	47,069,165
Net cash generated from financing activities		**192,515,425**	329,910,937
Net increase/(decrease) in cash and cash equivalents		**18,032,226**	(86,121,598)
Effect of foreign exchange rate changes		**(27,825,640)**	5,786,628
Cash and cash equivalents as at 1 January		**63,446,857**	143,781,827
Cash and cash equivalents as at 31 December		**53,653,443**	63,446,857

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

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

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

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

In the current year, the Group has applied, for the first time, the following new and amendments to the HKFRSs (the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1 January 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Except as described below, the application of the new and revised HKFRSs in the current year had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

The above new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new and revised HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standards below.

Consolidated statement of financial position (extract)	31 December 2017 HK$	HKFRS 9 HK$	HKFRS 15 HK$	1 January 2018 HK$
Non-current assets				
Available-for-sale investments	357,595,055	(357,595,055)	–	–
Financial assets at fair value through other comprehensive income	–	365,622,007*	–	365,622,007
Current assets				
Trade and bills receivables, prepayment and other receivables	238,025,633	(15,364,140)	–	222,661,493
Current liabilities				
Trade and bills payables and other payables	286,049,209	–	(43,084,752)	242,964,457
Contract liabilities	–	–	43,084,752	43,084,752
Net current assets	172,154,333	(15,364,140)	–	156,790,193
Total assets less current liabilities	871,749,203	(7,337,188)*	–	864,412,015*
Net assets	533,000,094	(7,337,188)*	–	525,662,906*
Capital and reserves				
Reserves	478,837,851	(7,337,188)*	–	471,500,663*

* The amount is excluded the exchange difference of HK$39,484 due to translation of financial statements of foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale investments (note) HK$	Financial assets at fair value through other comprehensive income HK$
Closing balance as at 31 December 2017	357,595,055	–
Reclassification from available-for-sale investments	(357,595,055)	357,595,055
Remeasurement from cost less impairment to fair value	–	8,026,952*
Opening balance as at 1 January 2018	–	365,622,007*

* The amount is excluded the exchange difference of HK$39,484 due to translation of financial statements of foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9 (Continued)

Note:

Available-for-sale ("AFS") investments to FVTOCI

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its unlisted equity investments previously classified as available-for-sale investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$357,595,055 were reclassified from AFS investments to financial assets at fair value through other comprehensive income ("FVTOCI"), of which HK$357,595,055 related to unlisted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$8,026,952 (excluded exchange difference of HK$39,484) relating to those unlisted equity investments previously carried at cost less impairment were adjusted to financial assets at FVTOCI and FVTOCI reserve as at 1 January 2018.

(i) Classification and measurement

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at FVTOCI and at fair value through profit or loss ("FVTPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVTPL, if the investment does not meet the criteria for being measured at amortise cost or FVTOCI (recycling). Changes in the fair value of the investment (including) interest are recognised in profit or loss.

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

(b) HKFRS 9 Financial instruments *(Continued)*

(i) Classification and measurement (Continued)

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI (non-recycling), are recognised in profit or loss as other income.

Except described above, there is no reclassification or remeasurement of the financial assets, including cash and cash equivalent, trade and bills receivables, prepayment and other receivables for the adoption of HKFRS 9.

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

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, have been assessed individually for significant balances.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including bills receivables, deposits, other receivables, time deposits and bank balances are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition, which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follow.

Other financial assets at amortised cost, including cash and bank balances are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments *(Continued)*

(ii) Impairment under ECL model (Continued)

The following tables summarised the impact, net of tax, of transition HKFRS 9 on the opening balance of reserve as at 1 January 2018 as follow:

	FVTOCI reserve HK$	Accumulated losses HK$
Balance as at 31 December 2017, as originally presented	–	21,135,253
Remeasurement under HKFRS 9	8,026,952*	–
Increase in provision for		
– trade receivables	–	171,731
– other receivables	–	15,192,409
At 1 January 2018, as restated	8,026,952*	36,499,393

* The amount is excluded the exchange difference of HK$39,484 due to translation of financial statements of foreign operations.

The following table shows the balance including trade receivables and other receivables as at 31 December 2017 reconciled to the opening balance as at 1 January 2018 as follow:

	Other receivables HK$	Trade receivables HK$
Closing balance as at 31 December 2017 – HKAS 39	79,376,628	90,376,569
Amounts re-measured through opening		
– accumulated losses	(15,192,409)	(171,731)
Opening balance as at 1 January 2018 – HKFRS 9	64,184,219	90,204,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(b) HKFRS 9 Financial instruments *(Continued)*

(ii) Impairment under ECL model (Continued)

All loss allowance, including trade receivables and other receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follow:

	Other receivables HK$	Trade receivables HK$
Closing balance as at 31 December 2017 – HKAS 39	–	–
Amounts re-measured through opening		
– accumulated losses	15,192,409	171,731
Opening balance as at 1 January 2018 – HKFRS 9	15,192,409	171,731

(c) HKFRS 15 Revenue from Contracts with Customers and the related Amendments

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared with HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue mainly from following major sources which arise from contracts with customers.

- Sales of ADAS and other automotive components
- Sales of car-carried purifiers
- Sales of cars

Except for the reclassification of the contract liabilities from receipt in advance of HK$43,084,752 at initial application, HKFRS 15 was generally adopted without restating any other comparative information. There is no impact of transition to HKFRS 15 on accumulated losses at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

New and revised HKFRSs that have been issued but are not yet effective

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[3]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term interests in Associates and Joint Ventures[1]
HKFRS (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a Business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

[1] Effective for annual periods beginning on or after 1 January 2019.

[2] Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

[3] Effective for annual periods beginning on or after 1 January 2020.

[4] Effective for annual periods beginning on or after 1 January 2021.

[5] Effective for annual periods beginning on or after a date to be determined.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

New and revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 16 Leases (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$7,595,170 as disclosed in note 39 to the financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except disclosed above, the Directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which is a collective term that includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKASs") and Interpretations (the "Interpretations") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) ("CO").

(b) Basis of preparation of the consolidated financial statements

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

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

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

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

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation *(Continued)*

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combinations

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combinations *(Continued)*

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

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

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

(f) Investment in associates and joint ventures

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates and joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates and joint ventures. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate and joint ventures exceeds the Group's interest in that associate and joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate and joint ventures), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate and joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Investment in associates and joint ventures *(Continued)*

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Property, plant and equipment

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

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

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

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

–	Leasehold improvements	Shorter of the remaining lease term or 3 years
–	Machinery and equipment	3-10 years
–	Motor vehicles	10 years
–	Office equipment	5 years

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

(h) Construction in progress

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Intangible assets (other than goodwill)

Intangible assets acquired separately

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

Internally-generated intangible asset – research and development expenditure

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

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

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

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

– the ability to use or sell the intangible asset;

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Derecognition of intangible assets

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

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

– Patents	10-18 years
– Exclusive right	10 years

Both the period and method of amortisation are reviewed annually.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Leases

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

The Group as lessor

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

The Group as lessee

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

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

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

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

Leasehold land for own use

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Leases *(Continued)*

Leasehold land for own use (Continued)

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

(l) Inventories

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

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

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

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

(m) Trade and bills receivables and other receivables

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

(n) Interest-bearing borrowings

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

(o) Trade and bills payables and other payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

(ii) Share options granted to employees

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Employee benefits *(Continued)*

(iii) Termination benefits

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

(r) Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(r) Taxation *(Continued)*

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

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

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

(s) Provisions

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

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

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

(t) Government grant

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income or a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(u) Current assets and liabilities

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

(v) Contingent liabilities and contingent assets

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

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

(w) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets

(i) Classification and subsequent measurement of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2) *(Continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

(ii) Impairment of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposit paid, other receivables, time deposits and cash and bank balances). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2) *(Continued)*

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(a) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk for a particular financial instrument,e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2) *(Continued)*

(a) Significant increase in credit risk *(Continued)*

- an actual or expected significant deterioration in the operating results of the debtor;

- significant increases in credit risk on other financial instruments of the same debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,

(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when it has an internal/or external credit rating of 'investment grade' in accordance with the globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2) *(Continued)*

(b) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(c) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2) *(Continued)*

(d) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 90 days past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries made are recognised in profit or loss.

(e) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets (Upon application of HKFRS 9 in accordance with transition in note 2) *(Continued)*

(e) Measurement and recognition of ECL *(Continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments/receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

Financial liabilities

Financial liabilities at amortised cost

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

Effective interest method

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Convertible bonds

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

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

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

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

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

Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceeds received from the issue of warrants are recognised in equity (warrants reserve). The warrants reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to accumulated losses.

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial instruments (Prior to 1 January 2018)

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

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

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial instruments (Prior to 1 January 2018) (Continued)

Financial assets *(Continued)*

Available-for-sale financial assets

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

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial instruments (Prior to 1 January 2018) (Continued)

Financial assets *(Continued)*

Impairment of financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial instruments (Prior to 1 January 2018) (Continued)

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

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

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

Financial liabilities and equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial instruments (Prior to 1 January 2018) (Continued)

Financial liabilities and equity instruments *(Continued)*

Equity instruments

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

Financial liabilities at FVTPL

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial instruments (Prior to 1 January 2018) (Continued)

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at amortised cost

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

Convertible bonds

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Financial instruments *(Continued)*

Financial instruments (Prior to 1 January 2018) (Continued)

Financial liabilities and equity instruments *(Continued)*

Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceeds received from the issue of warrants are recognised in equity (warrants reserve). The warrants reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrants reserve will be transferred to accumulated losses.

Derecognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Revenue recognition

Revenue from contracts with customers (Upon application of HKFRS 15 in accordance with the transition in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods on services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Revenue recognition *(Continued)*

Sales of products

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Sale of ADAS and other automotive components and cars (revenue recognised at one point in time). The Group sells a range of products including sales of ADAS and other automotive components, car-carried purifiers and cars directly to the customers.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax and is after deduction of any trade discounts and goods returns.

Revenue recognition (Prior to 1 January 2018)

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

(i) Sale of goods

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

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Revenue recognition *(Continued)*

Revenue recognition (Prior to 1 January 2018) (Continued)

(ii) Government grants

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

(iii) Interest income

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

(iv) Finance lease income

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

(v) Dividend income

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

(y) Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(y) Foreign currencies *(Continued)*

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(z) Borrowing costs

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

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

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

(aa) Related parties transactions

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

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(aa) Related parties transactions *(Continued)*

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

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

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

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

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

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

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

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

(ab) Segment reporting

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

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

4. ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Depreciation and amortisation

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

(b) Valuation of inventories

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

(c) Provision of allowance for credit losses for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

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

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

(e) Income taxes and deferred taxation

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

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

(f) Estimated impairment of goodwill

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(g) Impairment losses of associate

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

(h) Consolidation of entities with less than 50% ownership and existence of significant influence

The directors have concluded that the Group controls Suzhou Zhihua Automobile Electronics Co., Ltd ("Suzhou Zhihua"), even though it holds less than half of the voting rights of this subsidiary. This is because the Suzhou Qiyizhi Management Enterprise Limited ("Suzhou Qiyizhi"), a wholly owned subsidiary of the Company, is the largest shareholder with 44.75% equity interests while the remaining shares are held by seven investors. Through the constitutional document of Suzhou Zhihua, its board of directors shall comprise of five members. The existing board of directors of Suzhou Zhihua consists of five directors and Suzhou Qiyizhi obtained the nomination rights to two directors out of the five board seats of Suzhou Zhihua and obtained a consent from another one director who acting in line with the decisions of two directors who were appointed by Suzhou Qiyizhi. The Group has therefore determined that it has significant influence over this entity, even though it only holds 44.75% of the voting rights.

(i) Fair value of unlisted equity investment

The fair value of the unlisted equity investment that are not traded in an active market, including financial asset at FVTOCI, is determined based on unobserved input using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each of the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bill receivables, other receivables, available-for-sales investments, financial asset at FVTOCI, finance lease receivables, pledged bank deposits, cash and cash equivalents, trade and bill payables, other payables, borrowings and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

	2018 **HK$**	2017 HK$
Financial assets		
Loans and receivables (including cash and cash equivalents)	–	355,956,103
At amortised costs	**330,109,069**	–
Available-for-sale investments	–	357,595,055
At fair value through other comprehensive income	**314,616,087**	–
Finance lease receivables	**93,419,083**	153,213,636
	738,144,239	866,764,794
Financial liabilities		
At amortised costs	**756,015,775**	704,385,063

Financial risk factors

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

(a) Credit risk

The credit risk of the Group mainly arises from bank balances and pledged bank deposits, bills receivables, trade receivables and deposit. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2018.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Credit risk *(Continued)*

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

As at 31 December 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of automotive driving assistance system ("ADAS") and other automotive components. The Group's trade receivables arise from sales of automotive driving assistance system and other automotive components. As at the end of the year, the top five debtors and the largest debtor accounted for approximately 81.4% and 47.0% (2017: 91.5% and 31.8%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

For other receivables relating to accounts that are long overdue with significant amounts, known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The Group recognised the provision for expected credit losses by assessing the credit risk characteristics of debtor, discount rate and the likelihood of recovery and considering the prevailing economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Credit risk *(Continued)*

As at 31 December 2018, HK$8,203,885 of bills receivables were pledged to the banks to issue bills payables as set out in note 30 to the consolidated financial statements. All the bills receivables will be matured within six months after the end of the reporting period.

The Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

Finance lease receivables are mainly secured by leased assets mainly the motor vehicles (note 28) and the average lease term was between 1 to 3 years. Finance lease receivables were considered credit-impaired when the customers fail to settle according to the settlement terms for more than 180 days after taking into consideration the recoverability of collateral and deposits. As such, as at 31 December 2018, and no allowance for expected credit loss for finance lease receivables was recognised.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount HK$	Loss allowance HK$
Less than 1 month past due	0.18	98,724,646	172,957
1 to 3 months past due	0.24	8,861	21
3 months to 1 year past due	4.06	7,487,140	304,107
More than 1 year	57.21	2,659,823	1,521,666
		108,880,470	1,998,751

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Credit risk *(Continued)*

The closing loss allowances for trade receivables and other financial assets at amortised cost as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables HK$	**Other receivables** HK$
At 31 December 2017 – HKAS 39	–	–
Amounts re-measured through opening		
– accumulated losses	171,731	15,192,409
– FVTOCI reserve	–	–
At 1 January 2018 – HKFRS 9	171,731	15,192,409
Increase in loss allowance recognised in profit or loss during the year (note 9)	1,827,020	–
Reversal of loss allowance (note 9)	–	(1,838,323)
At 31 December 2018 – HKFRS 9	1,998,751	13,354,086

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60-90 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(b) Liquidity risk

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

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

As at 31 December 2018

	Weighted average effective interest rate %	On demand or less than 1 year HK$	Over 1 year HK$	Total undiscounted cash flows HK$	Carrying amount HK$
Non-derivative financial liabilities					
Trade and bills payables and other payables	–	234,954,138	–	234,954,138	234,954,138
Borrowings	6.91	135,463,560	–	135,463,560	133,335,973
Convertible bonds	12.25	–	422,592,114	422,592,114	387,725,664
		370,417,698	422,592,114	793,009,812	756,015,775

As at 31 December 2017

	Weighted average effective interest rate %	On demand or less than 1 year HK$	Over 1 year HK$	Total undiscounted cash flows HK$	Carrying amount HK$
Non-derivative financial liabilities					
Trade and bills payables and other payables	–	286,049,209	–	286,049,209	286,049,209
Borrowings	5.42	87,978,708	–	87,978,708	83,983,628
Convertible bonds	12.47	–	386,890,411	386,890,411	334,352,226
		374,027,917	386,890,411	760,918,328	704,385,063

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(c) Currency risk

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

(d) Interest rate risk

(i) Exposure to interest rate risk

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

(ii) Sensitivity analysis

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$220,394 (2017: HK$353,214). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(e) Fair values

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(e) Fair values *(Continued)*

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

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

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

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

Fair value hierarchy

	Fair value as at			**Valuation**
	31 December 2018	31 December 2017	**Fair value hierarchy**	**techniques and key inputs**
Financial assets				
Financial assets at FVTOCI – Unlisted equity investments	**314,616,087**	–	Level 3	Discounted cash flow analysis

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(e) Fair values *(Continued)*

Fair value measurements using significant unobservable inputs (level 3)

Specific valuation techniques used to value level 3 financial instruments include techniques such as discounted cash flow analysis. There are no changes in valuation techniques during the year (2017: Nil).

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2018:

	Unlisted equity investments HK$
As at 31 December 2017 – HKAS 39	–
Reclassification from available-for-sale investment	357,595,055
Remeasurement from cost less impairment to fair value	8,026,952
Exchange adjustment	39,484
As at 1 January 2018 – HKFRS 9	365,661,491
Additions	59,545,525
Fair value change of financial assets at FVTOCI	(100,700,755)
Exchange adjustment	(9,890,174)
As at 31 December 2018 – HKFRS 9	314,616,087

The key unobservable assumptions used in the valuation of the unlisted equity investments are:

Valuation techniques	**Unobservable inputs**	**As at 31 December 2018**	As at 31 December 2017
Discounted cash flow Analysis	Discount rate	**9.67%-18.03%**	N/A
	Terminal growth rate	**3.00%**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(e) Fair values *(Continued)*

During the years ended 31 December 2018 and 2017, there were no transfers of fair value measurement between Level 1 and Level 2, and there were no transfers into or out of Level 3 for both financial assets and financial liabilities.

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

	As at 31 December 2018	
	Carrying amount	**Fair value**
	HK$	**HK$**
Financial liabilities		
Convertible bonds	**387,725,664**	**449,205,348**

	As at 31 December 2017	
	Carrying amount	Fair value
	HK$	HK$
Financial liabilities		
Convertible bonds	334,352,226	339,383,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION

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

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

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

(a) ADAS and other automotive components – sale of ADAS and other automotive components in the People's Republic of China ("PRC")

(b) Car-carried purifiers – sale of car-carried purifiers in the PRC

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

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

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

	ADAS and other automotive components HK$	Car-carried purifiers HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2018					
Segment revenue	328,004,405	–	2,029,362	127,203,446	457,237,213
Segment results	(203,415)	(8,294,706)	(14,613)	15,418,594	6,905,860
Share of loss of an associate	–	–	–	–	(1,587,696)
Share of loss of a joint venture	–	–	–	–	(1,868,704)
Loss on disposal of property, plant and equipment	–	–	–	–	(508,652)
Impairment loss recognised on amount due from an associate	–	–	–	–	(5,119,061)
Allowance for credit losses on trade receivables					(1,827,020)
Reversal of credit losses on other receivables					1,838,323
Unallocated corporate expense					(75,720,987)
Unallocated corporate income					1,779,733
Finance costs					(53,969,334)
Loss before taxation					(130,077,538)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(CONTINUED)*

	ADAS and other automotive components HK$	Car-carried purifiers HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2017					
Segment revenue	26,938,353	5,927,825	54,522,615	115,303,823	202,692,616
Segment results	2,956,386	(563,698)	1,136,035	8,452,408	11,981,131
Share of loss of an associate	–	–	–	–	(3,429,909)
Share of loss of a joint venture	–	–	–	–	(934,076)
Loss on disposal of property, plant and equipment	(2,232,235)	–	–	–	(2,232,235)
Impairment loss recognised on finance lease receivables	–	–	–	(1,857,439)	(1,857,439)
Impairment loss recognised on intangible assets	(3,581,132)	–	–	–	(3,581,132)
Unallocated corporate expense					(63,476,376)
Unallocated corporate income					6,507,901
Finance costs					(23,823,916)
Loss before taxation					(80,846,051)

Segment results represent the profit earned by or loss from each segment without allocation of unallocated corporate expense, unallocated corporate income, share of loss of an associate, share of loss of a joint venture, loss on disposal of property, plant and equipment, impairment loss recognised on amount due from an associate, impairment loss recognised on finance lease receivables, impairment loss recognised on intangible assets, allowance for credit losses on trade receivables, reversal of credit losses on other receivables, and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(CONTINUED)*

	ADAS and other automotive components HK$	**Car-carried purifiers HK$**	**Car trading HK$**	**Finance lease of motor vehicles and equipment HK$**	**Total HK$**
Year ended 31 December 2018					
Segment assets	**453,572,896**	**80,597,340**	**5,473,393**	**173,391,131**	**713,034,760**
Segment liabilities	**240,755,451**	**–**	**9,999**	**32,733,706**	**273,499,156**

	ADAS and other automotive components HK$	Car-carried purifiers HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2017					
Segment assets	408,302,471	88,654,932	2,269,431	160,121,467	659,348,301
Segment liabilities	197,041,301	159,859	81,430	61,260,096	258,542,686

Reconciliation of reportable segments' assets and liabilities:

	2018 HK$	2017 HK$
Assets		
Total assets of reportable segments	**713,034,760**	659,348,301
Unallocated and other corporate assets:		
Prepayments and other receivables	**131,861,729**	88,070,908
Available-for-sale investments	**–**	357,595,055
Financial assets at fair value through other comprehensive income	**314,616,087**	–
Cash and cash equivalents	**75,105,586**	126,624,750
Office equipment and motor vehicles	**2,894,590**	4,191,257
Interests in associates	**–**	6,608,761
Interests in a joint venture	**1,096,586**	611,044
Consolidated total assets	**1,238,609,338**	1,243,050,076
Liabilities		
Total liabilities of reportable segments	**273,499,156**	258,542,686
Unallocated and other corporate liabilities:		
Other payables	**78,303,245**	101,952,651
Borrowings	**46,241,870**	9,537,500
Convertible bonds	**387,725,664**	334,352,226
Deferred tax liabilities	**4,450,766**	4,396,883
Current tax payable	**969,506**	1,268,036
Consolidated total liabilities	**791,190,207**	710,049,982

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(CONTINUED)*

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

- all assets are allocated to operating segments other than available-for-sale investments, financial assets at fair value through other comprehensive income and other unallocated corporate assets (mainly comprising prepayments and other receivables, cash and cash equivalents, office equipment and motor vehicles, interests in associates and interests in a joint venture); and

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

Other segment information

	ADAS and other automotive components HK$	Car-carried purifiers HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Unallocated HK$	Total HK$
Year ended 31 December 2018						
Capital expenditure	**51,712,103**	**–**	**–**	**1,652,819**	**30,194,290**	**83,559,212**
Depreciation and amortisation	**22,420,169**	**–**	**–**	**333,396**	**1,220,627**	**23,974,192**
Taxation	**(55,480)**	**–**	**–**	**(1,651,421)**	**98,595**	**(1,608,306)**
Year ended 31 December 2017						
Capital expenditure	8,347,943	42,026,040	–	3,362,267	1,962,146	55,698,396
Depreciation and amortisation	5,514,327	1,382,805	–	616,018	481,016	7,994,166
Taxation	(9,321,826)	204,776	149,617	608,102	(1,963,237)	(10,322,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(CONTINUED)*

Information about geographical areas

During the year, the Group was mainly operating in the PRC (2017: the PRC). The Group's revenue from external customers based on the location of the operation and information about its non-current assets by geographical location are presented below:

	ADAS and other automotive components		Car-carried purifiers		Car trading		Finance lease of motor vehicles and equipment		Total	
	2018 HK$	2017 HK$	**2018 HK$**	2017 HK$	**2018 HK$**	2017 HK$	**2018 HK$**	2017 HK$	**2018 HK$**	2017 HK$
Revenue										
The PRC	**328,004,405**	26,938,353	**–**	5,927,825	**2,029,362**	54,522,615	**127,203,446**	115,303,823	**457,237,213**	202,692,616
Non-current assets										
The PRC	**214,351,423**	177,022,990	**80,073,445**	88,654,932	**–**	–	**24,688,077**	64,910,831	**319,112,945**	330,588,753

Information about major customers

For the year ended 31 December 2018, revenue generated from two (2017: one) customer(s) of the Group amounting to HK$274,057,858 (2017: HK$31,021,944) has individually accounted for over 10% of the Group's total revenue. Save as disclosed, no other single customers contributed 10% or more to the Group's revenue for both years.

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

	2018 HK$	2017 HK$
Customer A	**153,315,810**	–
Customer B	**–**	31,021,944
Customer C	**120,742,048**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE

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

Revenue recognised during the year is analysed as follows:

	2018 HK$	2017 HK$
Revenue from contracts with customers		
Recognised at a point in time:		
Sales of ADAS and other automotive components	**328,004,405**	26,938,353
Sales of car-carried purifiers	**–**	5,927,825
Sales of cars	**2,029,362**	54,522,615
	330,033,767	87,388,793
Revenue from other source:		
Finance lease income	**127,203,446**	115,303,823
	457,237,213	202,692,616

All revenue contracts are for period of one year or less. As permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

8. OTHER REVENUE

	2018 HK$	2017 HK$
Bank interest income	**1,897,898**	2,274,242
Subsidy income (note)	**871,400**	14,816
Sundry income	**491,566**	1,947,150
	3,260,864	4,236,208

Note:

For the years ended 31 December 2018 and 2017, subsidy income mainly represents the reward for innovative and high-end technology enterprise in the PRC. Subsidy income received by the Group is recognised in the consolidated statement of profit or loss and other comprehensive income when received and no specific conditions have been required to fulfill. The subsidy income recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to those subsidy income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. OTHER GAINS AND LOSSES

	2018 HK$	2017 HK$
Net foreign exchange loss/(gain)	**3,481,318**	(2,491,079)
Loss on disposal of property, plant and equipment	**508,652**	2,232,235
Impairment loss recognised on finance lease receivables	–	1,857,439
Impairment loss recognised on intangible assets	–	3,581,132
Allowance for credit losses on trade receivables	**1,827,020**	–
Reversal of credit losses on other receivables	**(1,838,323)**	–
Impairment loss on interest in associate	**5,119,061**	–
Gain on disposal of subsidiaries	**(95,776)**	–
	9,001,952	5,179,727

10. RESEARCH AND DEVELOPMENT EXPENSES

	2018 HK$	2017 HK$
Research and development expenses incurred	**10,095,011**	5,120,836

11. FINANCE COSTS

	2018 HK$	2017 HK$
Interest expenses on bank loans	**4,489,287**	649,406
Interest expenses on other loans	**11,387,882**	1,166,518
Imputed interest expenses on convertible bonds	**38,092,165**	22,007,992
	53,969,334	23,823,916

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	2018 HK$	2017 HK$
Auditors' remuneration		
– Audit service	**900,000**	900,000
– Non-audit service	**680,000**	898,668
Staff costs (including directors' emoluments)		
– Salaries, wages and bonuses	**34,196,745**	33,181,176
– Retirement scheme contributions and welfare	**3,754,300**	1,390,238
– Share-based payments	**2,435,003**	10,161,284
Depreciation of property, plant and equipment	**5,366,400**	6,080,823
Amortisation of intangible assets	**18,607,792**	1,913,343
Operating lease charges in respect of rented properties	**6,887,356**	4,153,927
Cost of inventories	**86,307,755**	76,493,775

13. TAXATION

(a) Income tax recognised in profit or loss:

	2018 HK$	2017 HK$
Current tax:		
PRC Enterprise Income Tax	**1,706,901**	972,751
Hong Kong Profits Tax	**–**	–
Deferred tax:		
Current year credit	**(3,315,207)**	(11,295,319)
Taxation	**(1,608,306)**	(10,322,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. TAXATION *(CONTINUED)*

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

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

	Note	2018	2017
Troitec Automotive Electronics Co., Ltd ("Troitec")	(i) and (iii)	**N/A**	25%
Shanghai Nanlang Finance Lease Limited ("Shanghai Nanlang")	(i)	**25%**	25%
Hunan Delu Car Trading Limited ("Hunan Delu")	(i)	**25%**	25%
Suzhou Yadu Cloud Technology Co., Limited ("Yadu Cloud")	(i)	**25%**	25%
Suzhou Zhihua Automobile Electronic Co., Ltd ("Suzhou Zhihua")	(ii)	**15%**	15%
Beijing Yinwo Automotbile Technology Company Limited ("Beijing Yinwo")	(i)	**25%**	25%
Qidi Zhixing Technology (Beijing) Limited ("Qidi Zhixing")	(i)	**25%**	25%
TUS Yunzhi Technology (Beijing) Limited ("TUS Yunzhi")	(i)	**25%**	25%
TUS Cloud Control (Beijing) Technology Limited ("TUS Cloud Control")	(i)	**25%**	25%

Notes:

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

(ii) Suzhou Zhihua is "encouraged hi-tech enterprise" and entitled to reduce the tax rate to 15%.

(iii) The Company was disposed during the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. TAXATION *(CONTINUED)*

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

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rate regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. 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 year ended 31 December 2018.

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

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

	2018 **HK$**	2017 HK$
Loss before taxation	**(130,077,538)**	(80,846,051)
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(22,246,408)**	(13,766,178)
Tax effect of non-deductible expenses	**673,964**	7,151,725
Tax effect of non-taxable revenue	**(566,391)**	(797,587)
Tax effect of unrecognised temporary differences and tax losses	**20,530,529**	(2,880,528)
Tax reduction	**–**	(30,000)
Taxation	**(1,608,306)**	(10,322,568)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DIRECTORS' REMUNERATION

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

Year ended 31 December 2018

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Sub-total HK$	Share-based payments HK$	Total HK$
Executive directors							
Mr. Ma Chi Kong Karl	–	1,200,000	–	18,000	1,218,000	–	1,218,000
Mr. Du Peng	–	1,200,000	–	18,000	1,218,000	1,063,375	2,281,375
Mr. Shen Xiao	–	3,206,250	–	18,000	3,224,250	1,063,375	4,287,625
Mr. Woo Kar Tung Raymond (resigned on 7 June 2018)	–	1,126,754	–	9,000	1,135,754	–	1,135,754
Ms. Cheung Joanna Wai Sze (resigned on 23 July 2018)	–	674,194	–	10,500	684,694	–	684,694
Non-executive directors							
Mr. Tsang Ling Biu, Gilbert	360,000	–	–	–	360,000	–	360,000
Mr. Qin Zhiguang (appointed on 27 March 2018)	274,839	–	–	–	274,839	–	274,839
Mr. Yang Ming (note (i)) (resigned on 24 June 2018)	–	64,516	–	1,500	66,016	–	66,016
Independent non-executive directors							
Hon. Quat Elizabeth *(JP)*	360,000	–	–	–	360,000	–	360,000
Mr. Chen Jin (resigned on 24 June 2018)	174,000	–	–	–	174,000	–	174,000
Mr. Poon Chiu Kwok	360,000	–	–	–	360,000	–	360,000
Mr. Wong Yuk Lun, Alan	180,000	–	–	9,000	189,000	–	189,000
Total	1,708,839	7,471,714	–	84,000	9,264,553	2,126,750	11,391,303

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For the year ended 31 December 2018

14. DIRECTORS' REMUNERATION *(CONTINUED)*

Year ended 31 December 2017

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Sub-total HK$	Share-based payments HK$	Total HK$
Executive directors							
Mr. Ma Chi Kong Karl	–	1,200,000	–	18,000	1,218,000	3,083,125	4,301,125
Mr. Du Peng	–	1,200,000	–	18,000	1,218,000	156,548	1,374,548
Mr. Shen Xiao	–	3,000,000	–	18,000	3,018,000	3,083,125	6,101,125
Mr. Yang Ming	–	2,400,000	–	18,000	2,418,000	3,083,125	5,501,125
Mr. Woo Kar Tung Raymond	–	2,400,000	–	18,000	2,418,000	156,548	2,574,548
Ms. Cheung Joanna Wai Sze	–	1,200,000	–	18,000	1,218,000	156,548	1,374,548
Non-executive directors							
Mr. Tsang Ling Biu, Gilbert	360,000	–	–	–	360,000	78,274	438,274
Mr. Sheng Ruzhi (resigned on 31 August 2017)	240,000	–	–	–	240,000	78,274	318,274
Independent non-executive directors							
Hon. Shek Lai Him, Abraham (resigned on 6 January 2017)	5,806	–	–	–	5,806	–	5,806
Hon. Quat Elizabeth *(JP)* (appointed on 6 January 2017)	355,161	–	–	–	355,161	–	355,161
Mr. Chen Jin	360,000	–	–	–	360,000	–	360,000
Mr. Poon Chiu Kwok	360,000	–	–	–	360,000	–	360,000
Mr. Wong Yuk Lun, Alan	180,000	–	–	9,000	189,000	–	189,000
Total	1,860,967	11,400,000	–	117,000	13,377,967	9,875,567	23,253,534

Note:

(i) On 29 January 2018, Mr. Yang Ming has been redesignated from an executive director to a non-executive director and resigned on 24 June 2018.

15. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group, included four (2017: four) directors whose emoluments are disclosed in note 14. The detail of the emoluments in respect of the remaining one (2017: one) individual who is neither a director nor chief executive of the Company for the years ended 31 December 2018 and 2017 are as follows:

	2018 **HK$**	2017 HK$
Salaries and other emoluments	**936,304**	1,805,231
Retirement scheme contributions	**18,000**	18,000
	954,304	1,823,231

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

	2018 **Number of** **individuals**	2017 Number of individuals
HK$500,001 – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	1

16. DIVIDENDS

The directors of the Company do not recommend the payment of any dividends in respect of the year ended 31 December 2018 (2017: Nil).

17. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of HK$122,384,844 (2017: HK$75,283,337) and the weighted average of 1,047,225,984 (2017: 928,184,888) ordinary shares in issue during the year.

(b) Diluted loss per share

For the years ended 31 December 2018 and 2017, the computation of diluted loss per share does not include the Company's outstanding warrants, 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.

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18. FIXED ASSETS

	Leasehold improvements HK$	Machinery and equipment HK$	Motor vehicles HK$	Office equipment HK$	Total HK$
Cost:					
As at 1 January 2017	–	1,209,618	4,556,018	2,658,444	8,424,080
Additions	2,244,712	6,255,475	821,597	2,192,489	11,514,273
Acquisition of subsidiaries (note 37)	506,518	9,602,057	–	2,067,317	12,175,892
Disposal	–	(37,564)	(1,884,953)	(1,697,233)	(3,619,750)
Exchange alignment	8,425	296,988	128,354	218,110	651,877
As at 31 December 2017 and 1 January 2018	2,759,655	17,326,574	3,621,016	5,439,127	29,146,372
Additions	2,405,665	7,192,470	602,749	1,925,318	12,126,202
Disposal	(962,147)	–	–	–	(962,147)
Disposal of subsidiary	–	(1,607,613)	–	–	(1,607,613)
Exchange alignment	(85,214)	(819,518)	(43,158)	(313,725)	(1,261,615)
As at 31 December 2018	4,117,959	22,091,913	4,180,607	7,050,720	37,441,199
Accumulated depreciation:					
As at 1 January 2017	–	534,534	640,936	2,412,351	3,587,821
Charge for the year	489,338	4,037,706	828,917	724,862	6,080,823
Written back on disposal	–	(17,287)	(343,675)	(1,026,553)	(1,387,515)
Exchange alignment	578	91,531	28,399	90,478	210,986
As at 31 December 2017 and 1 January 2018	489,916	4,646,484	1,154,577	2,201,138	8,492,115
Charge for the year	915,074	2,873,079	413,713	1,164,534	5,366,400
Written back on disposal	(445,070)	–	–	–	(445,070)
Disposal of subsidiary	–	(1,607,613)	–	–	(1,607,613)
Exchange alignment	(29,229)	(215,229)	(31,400)	(139,244)	(415,102)
As at 31 December 2018	930,691	5,696,721	1,536,890	3,226,428	11,390,730
Carrying amounts:					
As at 31 December 2018	**3,187,268**	**16,395,192**	**2,643,717**	**3,824,292**	**26,050,469**
As at 31 December 2017	2,269,739	12,680,090	2,466,439	3,237,989	20,654,257

19. CONSTRUCTION IN PROGRESS

	2018	2017
	HK$	HK$
As at 1 January	**2,635,365**	–
Additions	**5,687,547**	2,158,083
Acquisition of subsidiaries (note 37)	**–**	469,474
Exchange alignment	**(136,644)**	7,808
As at 31 December	**8,186,268**	2,635,365

20. INTANGIBLE ASSETS

	Development costs	**Patents**	**Exclusive right**	**Total**
	HK$	HK$	HK$	HK$
Cost:				
As at 1 January 2017	41,717,610	71,214,327	–	112,931,937
Additions	–	–	42,026,040	42,026,040
Exchange alignment	3,357,680	5,731,750	–	9,089,430
As at 31 December 2017 and 1 January 2018	45,075,290	76,946,077	42,026,040	164,047,407
Additions	65,745,463	–	–	65,745,463
Exchange alignment	(4,397,144)	(3,989,681)	(2,179,065)	(10,565,890)
Disposal of subsidiary	–	(72,956,396)	–	(72,956,396)
As at 31 December 2018	**106,423,609**	**–**	**39,846,975**	**146,270,584**
Accumulated amortisation and impairment:				
As at 1 January 2017	41,717,610	67,359,228	–	109,076,838
Amortisation charge for the year	–	530,538	1,382,805	1,913,343
Impairment charge	–	3,581,132	–	3,581,132
Exchange alignment	3,357,680	5,475,179	18,063	8,850,922
As at 31 December 2017 and 1 January 2018	45,075,290	76,946,077	1,400,868	123,422,235
Amortisation charge for the year	14,494,205	–	4,113,587	18,607,792
Exchange alignment	(2,791,311)	(3,989,681)	(201,525)	(6,982,517)
Disposal of subsidiary	–	(72,956,396)	–	(72,956,396)
As at 31 December 2018	**56,778,184**	**–**	**5,312,930**	**62,091,114**
Carrying amounts:				
As at 31 December 2018	**49,645,425**	**–**	**34,534,045**	**84,179,470**
As at 31 December 2017	–	–	40,625,172	40,625,172

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20. INTANGIBLE ASSETS *(CONTINUED)*

Development costs represent costs incurred to develop ADAS products and other automotive components.

During the year ended 31 December 2018, the research and development expenses approximately of HK$65.7 million was capitalised in development costs under intangible assets.

As at 31 December 2017, patents represent the registration fee of technologies developed by Troitec, which have been registered with the relevant government authorities to restrict the access of such technologies by third parties. The directors consider that the estimated useful life of the patents of Troitec to be 18 years. During the year ended 31 December 2018, Troitec was disposed.

Exclusive right represents the right of use of the trademarks and a patent which acquired by Yadu Cloud for car-carried purifiers business during the year ended 31 December 2018. The directors consider that the estimated useful life of the exclusive right to be 9 years.

For the review of impairment, the carrying amount of patent has been allocated to CGU of operating segment of the production and sales of automotive related products containing goodwill, its recoverable amount was determined based on value-in-use calculation. As the carrying amount of patents is higher than its recoverable amount, impairment loss of HK$Nil was recognised in profit or loss during the year ended 31 December 2018 (2017: HK$3,581,132). For more details of the impairment loss recognised on intangible assets, please refer to note 38.

Amortisation charge for the year ended 31 December 2018 of HK$158,332 (2017: HK$530,538) included in "research and development expenses".

21. GOODWILL

	2018	2017
	HK$	HK$
As at 1 January	**164,772,765**	3,380,099
Additional amount recognised from acquisition of subsidiaries during the year (note 37)	**–**	161,392,666
As at 31 December	**164,772,765**	164,772,765

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

Impairment tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill has been allocated to the following CGUs. The carrying amount of goodwill (net of impairment loss) as at 31 December 2018 and 2017 are allocated as follows:

	2018	2017
	HK$	HK$
Development, production and sales of ADAS products		
– Suzhou Zhihua (note 38)	**161,392,666**	161,392,666
Finance lease of motor vehicles and equipment (note 38)	**3,380,099**	3,380,099
	164,772,765	164,772,765

Development, production and sales of ADAS products

The recoverable amount of this CGU is determined by reference to the income approach, which is based on discounted cash flow based on the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 12.75% (2017: 12.31%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% (2017: 3%) growth rate.

Finance lease of motor vehicles and equipment

The recoverable amount of this CGU is determined by reference to the income approach, which is based on discounted cash flow based on the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 9.62% (2017: 15.25%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% (2017: 3%) growth rate.

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21. GOODWILL *(CONTINUED)*

Impairment tests for cash-generating units containing goodwill *(Continued)*

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

- For the CGUs to continue as a going concern, it will successfully carry out all necessary activities for the development of its business;
- The availability of finance will not be a constraint on the forecast growth of the CGUs in accordance with the business plans;
- Market trends and conditions where the CGUs operate will not deviate significantly from the economic forecasts in general;
- Key management, competent personnel, and technical staff will all be retained to support ongoing operations of the CGUs;
- There will be no material changes in the business strategy of the CGUs and its operating structure;
- Interest rates and exchange rates in the localities for the operation of the CGUs will not differ materially from those presently prevailing;
- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organisation required to operate in the localities where the CGUs operate or intend to operate will not be officially obtained and renewable upon expiry unless otherwise stated; and
- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the CGUs operate or intend to operate, which would adversely affect the revenues and profits attributable to CGUs.

As the recoverable amounts of the CGUs is higher than the carrying amounts, no impairment loss on goodwill of these CGUs are recognised in the consolidated statement of profit or loss and other comprehensive income.

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22. PARTICULARS OF SUBSIDIARIES

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

Name of Company	Place of incorporation/ registration/ operations	Class of shares held	Paid up/ registration capital	Proportion of ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2018 %	2017 %	**2018** %	2017 %	
Troitec (note (i))	The PRC, limited liability company	Registered and paid up capital	RMB82,270,400	–	–	**N/A**	65.8	Production and sale of automotive components in the PRC
Sunlight Management Limited	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Administration and management service to the Group
Splendid Best International Limited	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Car trading in HK
Shanghai Nanlang	The PRC, limited liability company	Registered and paid up capital	RMB114,002,987	–	–	**51**	51	Provision of financing service for leasing motor vehicles and equipment in the PRC
Hunan Delu (note (iii))	The PRC, limited liability company	Registered and paid up capital	RMB5,000,000	–	–	**100**	100	Car trading in the PRC
Suzhou Zhihua (note (ii) and (iv))	The PRC, limited liability company	Registered and paid up capital	RMB38,700,000	–	–	**44.8**	36.6	Development, production and sale of ADAS products in the PRC
Beijing Yinwo (note (ii) and (iv))	The PRC, limited liability company	Registered and paid up capital	RMB1,000,000	–	–	**44.8**	36.6	Development, production and sale of automotive electronics products in the PRC
Yadu Cloud	The PRC, limited liability company	Registered and paid up capital	RMB80,000,000	–	–	**51**	51	Sale of car-carried purifiers in the PRC

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22. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

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

Name of Company	Place of incorporation/ registration/ operations	Class of shares held	Paid up/ registration capital	Proportion of ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2018 %	2017 %	**2018** %	2017 %	
Qidi Zhixing (note (ii))	The PRC, limited liability company	Registered and paid up capital	RMB6,760,495	–	–	**100**	100	Administration and management service to the Group
TUS Cloud Control (note (ii))	The PRC, limited liability company	Registered and paid up capital	Nil	–	–	**70**	70	Development of the technologies for the intelligent and connected vehicles cloud control platform

Notes:

(i) The company was disposed during the year ended 31 December 2018.

(ii) These companies were incorporated or acquired during the year ended 31 December 2017.

(iii) During the year ended 31 December 2017, the Group gained 49% additional equity interest of Hunan Delu. As a result of this transaction, the Group recognised an increase in non-controlling interests of HK$168,960 and a decrease in other reserve in equity of approximately HK$168,960.

(iv) During the year ended 31 December 2018, the Group gained 8.2% additional equity interest of Suzhou Zhihua. As a result of this transaction, the Group recognised an decrease in non-controlling interests of approximately HK$5,163,755 and a decrease in other reserve in equity of approximately HK$15,395,283.

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

Name of company	Place of incorporation/ registration/ operations	Proportion of ownership interests held by non-controlling interests		Proportion of voting rights held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018 %	2017 %	**2018** %	2017 %	**2018** HK$	2017 HK$	**2018** HK$	2017 HK$
Troitec	The PRC	**N/A**	48.8	**N/A**	48.8	**N/A**	(616,608)	**N/A**	(99,997,309)
Shanghai Nanlang	The PRC	**49.0**	49.0	**49.0**	49.0	**5,755,679**	2,925,880	**70,405,802**	68,342,473
Suzhou Zhihua	The PRC	**55.2**	63.4	**55.2**	63.4	**(989,841)**	(753,674)	**37,580,147**	40,138,548

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22. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

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

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

Troitec

	2017 HK$
Current assets	12,000,759
Non-current assets	47,128
Current liabilities	(216,960,405)
Non-current liabilities	–
Equity attributable to owners of the Company	(104,915,209)
Non-controlling interests	(99,997,309)
Revenue	–
Expenses	(1,263,542)
Loss for the year	(1,263,542)
Loss attributable to owners of the Company	(646,934)
Loss attributable to non-controlling interests	(616,608)
Loss for the year	(1,263,542)
Total comprehensive loss attributable to owners of the Company	(6,033,543)
Total comprehensive loss attributable to non-controlling interests	(5,750,721)
Total comprehensive loss for the year	(11,784,264)
Net cash inflow from operating activities	10,531,954
Net cash inflow	10,531,954

Notes:

Troitec was disposed during the year ended 31 December 2018.

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22. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

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

Shanghai Nanlang

	2018	2017
	HK$	HK$
Current assets	**148,725,824**	136,240,743
Non-current assets	**27,000,403**	67,532,773
Current liabilities	**(32,040,917)**	(64,299,082)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**73,279,508**	71,131,961
Non-controlling interests	**70,405,802**	68,342,473
Revenue	**127,203,446**	116,061,483
Expenses	**(115,457,162)**	(110,090,299)
Profit for the year	**11,746,284**	5,971,184
Profit attributable to owners of the Company	**5,990,605**	3,045,304
Profit attributable to non-controlling interests	**5,755,679**	2,925,880
Profit for the year	**11,746,284**	5,971,184
Total comprehensive profit attributable to owners of the Company	**2,147,547**	8,133,604
Total comprehensive profit attributable to non-controlling interests	**2,063,329**	7,814,639
Total comprehensive profit for the year	**4,210,876**	15,948,243
Net cash inflow/(outflow) from operating activities	**25,017,518**	(25,467,968)
Net cash outflow from investing activities	**(1,343,203)**	(5,942,482)
Net cash (outflow)/inflow from financing activities	**(10,426,096)**	8,405,208
Net cash inflow/(outflow)	**13,248,219**	(23,005,242)

22. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

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

Suzhou Zhihua

	2018	2017
	HK$	HK$
Current assets	**239,964,460**	238,066,779
Non-current assets	**55,756,793**	17,692,553
Current liabilities	**(238,127,852)**	(192,449,319)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**20,013,254**	23,171,465
Non-controlling interests	**37,580,147**	40,138,548
Revenue	**328,004,405**	26,480,797
Expenses	**(329,796,095)**	(27,669,558)
Loss for the year	**(1,791,690)**	(1,188,761)
Loss attributable to owners of the Company	**(801,849)**	(435,087)
Loss attributable to non-controlling interests	**(989,841)**	(753,674)
Loss for the year	**(1,791,690)**	(1,188,761)
Total comprehensive loss attributable to owners of the Company	**(3,158,211)**	(54,478)
Total comprehensive loss attributable to non-controlling interests	**(2,558,401)**	(94,368)
Total comprehensive loss for the year	**(5,716,612)**	(148,846)
Net cash inflow from operating activities	**29,398,985**	4,942,649
Net cash outflow from investing activities	**(36,045,060)**	(7,201,404)
Net cash inflow/(outflow) from financing activities	**19,032,295**	(10,182,013)
Net cash inflow/(outflow)	**12,386,220**	(12,440,768)

Significant restrictions

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

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23. INTERESTS IN ASSOCIATES

	2018	2017
	HK$	HK$
Cost of investment in an associate (unlisted)	**10,000,000**	10,000,000
Amount due from an associate	**–**	–
Share of post-acquisition loss and other comprehensive income, net of dividend received	**(4,880,939)**	(3,391,239)
Impairment loss recognised on amount due from an associate	**(5,119,061)**	–
	–	6,608,761

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

Name of entity	Place of incorporation	Principal place of business	Class of shares held	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
				2018	2017	**2018**	2017	
				%	%	**%**	%	
Tuspark Global Limited ("Tuspark Global")	British Virgin Islands	HK	Ordinary	**28.57%**	28.57%	**28.57%**	28.57%	Investment holdings

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23. INTERESTS IN ASSOCIATES *(CONTINUED)*

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

All of these associates are accounted for using the equity method in the consolidated financial statements.

The followings table illustrates the aggregated financial information of the Group's associates that are not individually material:

	2018	2017
	HK$	HK$
Current assets	**4,300,167**	5,754,329
Non-current assets	**25,209,290**	30,164,344
Current liabilities	**(41,681,649)**	(42,852,463)
Non-current liabilities	**(460,533)**	(484,722)
Revenue	**1,204,357**	5,552,528
Loss for the year	**(5,557,213)**	(12,005,283)
Other comprehensive income for the year	**343,022**	135,352
Total comprehensive loss for the year	**(5,214,211)**	(11,869,931)

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

	2018	2017
	HK$	HK$
Net liabilities of Tuspark Global	**(12,632,725)**	(7,418,512)
Proportion of ownership interests in Tuspark Global held by the Group	**28.57%**	28.57%
Group's share of net liabilities of Tuspark Global	**(3,609,169)**	(2,119,469)
Goodwill	**8,728,230**	8,728,230
Impairment loss recognised on investment in associate	**(5,119,061)**	–
Carrying amount of the Group's interest in Tuspark Global	**–**	6,608,761

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24. INTEREST IN A JOINT VENTURE

	2018	2017
	HK$	HK$
Cost of investment in a joint venture	**3,880,501**	1,540,501
Share of post acquisition loss and other comprehensive income of a joint venture	**(2,783,915)**	(929,457)
Share of net assets	**1,096,586**	611,044

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

Name	Place of incorporation	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2018	2017	**2018**	2017	
			%	%	**%**	%	
TUS Star International Management Limited ("TUS Star")	British Virgin Islands	The United States	**50%**	50%	**50%**	50%	Incubator for the motor vehicle industry

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amount shown in the joint venture's financial statements prepared under generally accepted accounting principles in the United States.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	2018	2017
	HK$	HK$
Current assets	**1,843,838**	707,033
Non-current assets	**375,256**	528,704
Current liabilities	**(25,922)**	(13,649)
Loss for the year	**(3,737,409)**	(1,868,151)
Other comprehensive income for the year	**28,493**	9,237
Total comprehensive loss for the year	**(3,708,916)**	(1,858,414)

24. INTEREST IN A JOINT VENTURE *(CONTINUED)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2018	2017
	HK$	HK$
Net assets of TUS Star	**2,193,172**	1,222,088
Proportion of ownership interests in TUS Star held by the Group	**50%**	50%
Group's share of net assets of TUS Star	**1,096,586**	611,044
Goodwill	**–**	–
Carrying amount of the Group's interest in TUS Star	**1,096,586**	611,044

25. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	HK$	HK$
Financial asset at FVTOCI (note (a)-(f))	**314,616,087**	–
Available-for-sale investments		
– unlisted equity investments at cost (note (a)-(e))	**–**	357,595,055

As at 31 December 2017, all available-for-sale investments are held with the intention for a continuing strategic or long-term purpose, which mainly included an indirectly owned 13.5% effective equity interest in a property holding company in the PRC, a 7.88% equity interest in the design, development, manufacturing and sales of high performance supercars under the brand "Apollo" in China, Europe and internationally, a 14% equity interest in a company which, 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 in the PRC.

Unlisted equity investments are measured at cost less impairment for the year ended 31 December 2017 since there was no quoted market price in an active market for the shares and the Directors of the Company were of the opinion that their fair values cannot be reliably measured. The Directors of the Company have conducted a regular review on the performance of the investee companies.

At the date of initial application of HKFRS 9, 1 January 2018, all unlisted equity investments previously measured at cost less impairment under HKAS 39 were reclassified to financial asset at fair value through other comprehensive income.

During the year ended 31 December 2018, the fair value change in respect of the Group's financial assets at FVTOCI amounted to HK$100,700,755 (2017: Nil).

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25. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS *(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 at a consideration of HK$136.0 million. Sino Partner Global Limited is the owner of the entire issued share capital of a company incorporated in Hong Kong, which in turn wholly owns the entire equity interest in two companies established in Hong Kong and a company established in Japan and 80% equity interest in a company established in Germany. Sino Partner Global Limited and its subsidiaries are principally engaged in the design, development, manufacturing and sales of high performance supercars under the brand "Apollo" in China, Europe and internationally.

(c) On 3 November 2016, the Group entered into a sale and purchase agreement with Suzhou Qijun Investment Management Company Limited*（蘇州騏駿投資管理有限公司）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 a gap fund agreement in relation to the proposed establishment of the gap fund with a proposed size of up to USD1.0 million (equivalent to approximately HK$7.78 million), which will be principally engaged in advancing the commercialisation potential of MICHIGAN research discoveries. On 29 August 2018, the Company further invest of USD100,000 in the gap fund. As at 31 December 2018, USD200,000 (equivalent to approximately HK$1,556,000) (2017: USD100,000, equivalent to approximately HK$778,000) has been injected in the gap fund.

(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 two companies incorporated in the PRC respectively which are principally engaged in development, production and sale of automotive electronics products.

(f) On 9 March 2018, the Group entered into a sale and purchase agreement with an independent third party for acquiring 9.09% of the entire issued share capital of China Intelligent and Connected Vehicle (Beijing) Research Institute Co. Ltd at a consideration of RMB50.0 million (equivalent to approximately HK$58.8 million). China Intelligent and Connected Vehicle (Beijing) Research Institute Co. Ltd is the owner of the entire issued share capital of a company incorporated in PRC. China Intelligent and Connected Vehicle (Beijing) Research Institute Co. Ltd is principally engaged in development of technology, undertake research and development relevant to China to meet the needs of developing products and technical advisory services as well as providing consultation and testing services for China's intelligent connected vehicles industry.

26. INVENTORIES

	2018 HK$	2017 HK$
Raw materials	**36,056,756**	31,401,399
Work-in-progress	**3,947,310**	2,071,011
Finished goods	**51,763,432**	50,181,468
	91,767,498	83,653,878

27. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2018 HK$	2017 HK$
Non-current:		
Deposit (Note (i))	**45,539,400**	48,029,760
Current:		
Trade receivables (Note (a))	**106,881,719**	90,376,569
Bills receivables	**27,680,625**	59,578,156
Deposits and prepayments	**78,872,643**	8,694,280
Other receivables	**91,548,343**	79,376,628
	304,983,330	238,025,633

Note:

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

As at 31 December 2018, HK$8,203,885 of bills receivables were pledged to the banks to issue bills payables as set out in note 30 to the consolidated financial statements. All the bills receivables will be matured within six months after the end of the reporting period. All the bills receivables are denominated in RMB.

As at 31 December 2018, included in other receivables mainly comprise amount due from a non-controlling interest shareholder amounting to HK$28,114,887 (2017: HK$29,652,373).

The Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

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27. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

As at 1 January 2018, loss allowance on the trade receivables of HK$171,731 and other receivables of HK$15,192,409 was provided upon transition to HKFRS 9 Financial Instrument and further increase of HK$1,827,020 on trade receivables and reversed by HK$1,838,323 on other receivable during the year ended 31 December 2018 as detailed in note 5(a).

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

(a) Ageing analysis

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

	2018	2017
	HK$	HK$
Within 3 months	**98,560,529**	79,110,957
Over 3 months but less than 6 months	**4,109,961**	9,217,775
Over 6 months but less than 12 months	**3,073,072**	2,047,837
Over 12 months	**1,138,157**	–
	106,881,719	90,376,569

The Group generally grants a credit period normally not more than 90 days from the date of billing.

27. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(b) Trade receivables that are not impaired

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

	2017 HK$
Neither past due nor impaired	79,110,957
Overdue by:	
Less than 3 months	9,217,775
Over 3 months but less than 12 months	2,047,837
Total	90,376,569

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

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

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28. FINANCE LEASE RECEIVABLES

	2018 HK$	2017 HK$
Current portion	**76,729,195**	95,150,945
Non-current portion	**16,689,888**	58,062,691
	93,419,083	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.

Amounts receivable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
Not later than 1 year	**96,846,956**	109,344,142	**76,729,195**	95,150,945
Later than 1 year not later than 5 years	**21,030,629**	61,202,809	**16,689,888**	58,062,691
Later than 5 years	–	–	–	–
	117,877,585	170,546,951	**93,419,083**	153,213,636
Less: unearned finance income	**(24,458,502)**	(17,333,315)	–	–
Present value of minimum lease payment receivables	**93,419,083**	153,213,636	**93,419,083**	153,213,636

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 10.7% per annum for the year ended 31 December 2018 (2017: 11.3%).

During the year ended 31 December 2017, finance lease receivables relate to one customer of the Group were individually determined to be impaired. The individually impaired receivables related to a customer that were in financial difficulties, therefore, the management assessed that those receivables are not expected to be recovered. As such, an impairment loss on finance leases receivables of approximately HK$1,857,439 has been recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

	2018 HK$	2017 HK$
Pledged bank deposits with original maturity over 3 months (note (i))	**50,344,939**	63,177,893
Cash and cash equivalents (note (ii))	**53,653,443**	63,446,857
	103,998,382	126,624,750

Notes:

(i) The interest rates on the pledged bank deposits ranged from 3.32% to 4.08% per annum. As at 31 December 2018, bank deposits of RMB48.1 million (31 December 2017: RMB42.4 million) were pledged to secure general banking facilities granted to Suzhou Zhihua and HK$3,986,933 (2017:HK$8,651,385) were pledged for bills payables.

(ii) Bank balances carry interest at floating rates based on daily bank deposit rates.

Cash and cash equivalents of the Group of HK$80,678,470 (2017: HK$62,284,336) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

30. TRADE AND BILLS PAYABLES AND OTHER PAYABLES

	2018 HK$	2017 HK$
Trade payables (note (a))	**103,225,264**	98,317,671
Bills payables	**15,415,087**	24,042,580
Other payables and accruals	**116,313,787**	163,688,958
	234,954,138	286,049,209

The credit period on trade payables is normally 90 days.

As at 31 December 2018, HK$29,656,515 (2017: HK$43,084,752) and HK$Nil (2017: HK$93,802,144) included in other payables was deposits paid by customers for the financing services for leasing motor vehicles and the remaining unsettled amount for acquisition of 14% equity interest in Suzhou Ziguang Innovative Education Development Company Limited respectively.

During the year ended 31 December 2018, consideration payable was settled by the share subscription and issue of convertible bonds as detail in note 45.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. TRADE AND BILLS PAYABLES AND OTHER PAYABLES *(CONTINUED)*

(a) Ageing analysis

The ageing analysis of trade payables is as follows:

	2018	2017
	HK$	HK$
Within 3 months	**99,212,152**	92,787,753
Over 3 months but less than 6 months	**3,296,550**	3,648,697
Over 6 months but less than 12 months	**581,232**	342
Over 12 months	**135,330**	1,880,879
	103,225,264	98,317,671

As at 31 December 2018, bills payables were pledged with bank deposits and bills receivables amounting to approximately HK$3,986,933 (2017: HK$8,651,385) and HK$8,203,885 (2017: HK$16,948,622) respectively.

31. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018	2017
	HK$	HK$
As at 1 January	**1,268,036**	801,035
Provision for income tax for the year (note 13)	**1,706,901**	972,751
Hong Kong Profits Tax	**–**	–
PRC Enterprise Income Tax Paid	**(2,005,432)**	(505,750)
As at 31 December	**969,505**	1,268,036

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

(b) Deferred tax liabilities recognised

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

	Development costs HK$	Acquired technology and patents HK$	Convertible bonds HK$	Total HK$
As at 31 December 2016 and 1 January 2017	3,671,598	5,078,156	2,453,188	11,202,942
Issue of convertible bond	–	–	3,906,931	3,906,931
Credit to consolidated statement of profit or loss and other comprehensive income (note 13)	(3,915,956)	(5,416,127)	(1,963,236)	(11,295,319)
Exchange alignment	244,358	337,971	–	582,329
As at 31 December 2017 and 1 January 2018	–	–	4,396,883	4,396,883
Issue of convertible bond	–	–	3,369,090	3,369,090
Credit to consolidated statement of profit or loss and other comprehensive income (note 13)	–	–	(3,315,207)	(3,315,207)
Exchange alignment	–	–	–	–
As at 31 December 2018	**–**	**–**	**4,450,766**	**4,450,766**

	2018 HK$	2017 HK$
Deferred tax liabilities recognised on the consolidated statement of financial position	**4,450,766**	4,396,883

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$33,068,499 (2017: HK$31,632,913) as it is not probable that the future taxable profits against which the losses can be utilised will be available in relevant tax jurisdiction and entity. The tax losses will expire in the coming two to five years. (2017: two to five years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. BORROWINGS

	2018 HK$	2017 HK$
Bank loans (note (a) and (b))	**83,678,648**	68,442,408
Other loans (note (c))	**49,657,325**	15,541,220
	133,335,973	83,983,628
Secured (note (a) and (b))	**77,986,221**	68,442,408
Unsecured (note (a) and (c))	**55,349,752**	15,541,220
	133,335,973	83,983,628
Carrying amount repayable:		
On demand or within one year	**133,335,973**	83,983,628
Less: amounts classified as current liabilities	**(133,335,973)**	(83,983,628)
	–	–

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

(a) As at 31 December 2018, the short-term secured bank loans of HK$77,986,221 (2017: HK$68,442,408) carries interest rate of 4.79%-5.66% (2017: 4.75%-5.66%) per annum and HK$5,692,427 (2017: HK$Nil) were obtained from bank, which were unsecured, repayable within one year and carries interest rate of 5.66% (2017: Nil) per annum.

(b) As at 31 December 2018, HK$29,031,377 (2017: HK$12,007,440) bank loans were secured by personal guarantee given by a director of the subsidiary, HK$Nil (2017: HK$8,405,208) bank loans were secured by a corporate guarantee, and HK$45,539,414 (2017: HK$48,029,760) bank loans were pledged with the Group's bank deposit amounting to RMB42.4 million.

(c) As at 31 December 2018, other loans of HK$49,657,325 (2017: HK$15,541,220) were obtained from independent third parties, which were unsecured, repayable within one year and carries interest rate of 4.35%-11.0% (2017: 4.4%-8.5%) per annum.

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

33. CONVERTIBLE BONDS

	CB1 (Note (a)) HK$	CB2 (Note (b)) HK$	CB3 (Note (c)) HK$	Total HK$
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	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	6,429,720	29,899,737	1,762,708	38,092,165
Less: Interest charged	–	(18,000,000)	–	(18,000,000)
Liability component at 31 December 2018	58,282,301	294,399,382	35,043,981	387,725,664
Less: amount classified under current liabilities	(58,282,301)	–	–	(58,282,301)
	–	294,399,382	35,043,981	329,443,363

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$136,000,000, of which HK$61,000,000 was settled by the issue 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.

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For the year ended 31 December 2018

33. CONVERTIBLE BONDS *(CONTINUED)*

Notes: *(Continued)*

(a) *(Continued)*

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

	HK$
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 31 December 2018 and 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% (2017: 12.40%) to the liability component.

(b) On 1 March 2017, the Company entered into a subscription agreement with Tuspark Venture, Munsun Smart Mobility Fund LP and CM Securities Investment Limited (collectively the "Subscribers") (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 CB 2 bears interest of 6% per annum and payable every six months in arrears on the interest payment date. 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:

	HK$
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

As at 31 December 2018, 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% to the liability component.

33. CONVERTIBLE BONDS *(CONTINUED)*

Notes: *(Continued)*

(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:

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

As at 31 December 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.

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34. EMPLOYEE RETIREMENT BENEFITS

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

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

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

35. SHARE OPTION SCHEMES

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

During the year ended 31 December 2018, a total number of 10,280,000 (2017: 1,000,000) share options were granted to consultant, 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 year ended 31 December 2018, no share options were cancelled or exercised. A total of 18,560,000 share options were lapsed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. SHARE OPTION SCHEMES *(CONTINUED)*

The particulars of the changes of the share options under the scheme during the year ended 31 December 2018 are as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share	At 1 January 2018	Granted during the year	Lapsed during the year	At 31 December 2018
Directors (note)	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	37,120,000	–	(9,280,000)	27,840,000
Employees	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	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	0.72	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 year								59,080,000
Weighted average exercise price (HK$)					0.819	0.620	0.821	0.784

Note:

Options granted to Ms. Cheung Joanna Wai Sze and Mr. Sheng Ruzhi who have resigned as the executive Director and non-executive Director of the Company with effect from 23 July 2018 and 31 August 2017 respectively. Afterwards, they both hold position as a consultant within the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. SHARE OPTION SCHEMES *(CONTINUED)*

The particulars of the changes of the share options under the scheme during the year ended 31 December 2017 are as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share	At 1 January 2017	Granted during the year	Lapsed during the year	At 31 December 2017
Directors (note)	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	37,120,000	–	–	37,120,000
Employees	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	2,400,000	–	(1,000,000)	1,400,000
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	0.72	–	1,000,000	–	1,000,000
					67,360,000	1,000,000	(1,000,000)	67,360,000
Exercisable at the end of the year								67,360,000
Weighted average exercise price (HK$)					0.821	0.720	0.820	0.819

Note:

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

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 year ended 31 December 2018 and 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	HK$0.427	HK$0.324	HK$0.324
Share price	HK$0.720	HK$0.780	HK$0.720	HK$0.620
Exercise price	HK$0.820	HK$0.822	HK$0.720	HK$0.620
Expected volatility	56.121%	70.550%	73.160%	57.105%
Option life	10 years	10 years	10 years	10 years
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	1.590%	1.105%	1.666%	2.101%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

During the year ended 31 December 2018, the total fair value of the share options granted was HK$3,332,995 (2017: HK$324,309).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

(a) Share capital

Authorised and issued share capital

	2018		2017	
	Number of shares	**HK$**	Number of shares	HK$
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:				
As at 1 January	**928,184,888**	**9,281,849**	928,184,888	9,281,849
Subscription of shares (note)	**395,000,000**	**3,950,000**	–	–
	1,323,184,888	**13,231,849**	928,184,888	9,281,849

Note:

On 21 June 2018 and 12 September 2018, the Company completed the allotment and issue of shares to subscribers of 295,000,000 subscription shares and of 100,000,000 subscription shares respectively at the subscription price of HK$0.537 per subscription share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. CAPITAL AND RESERVES *(CONTINUED)*

(b) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Company Law of Cayman Islands.

(ii) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies.

(iv) Other reserve

Other reserve of the Group comprises the following:

– the fair value of existing share of net identifiable assets of a jointly controlled entity or an associate acquired over its carrying amount of net identifiable assets of subsidiaries at date of which control is obtained by the Group;

– the excess of purchase consideration on acquisition of non-controlling interests over the carrying value of share of net assets acquired in accordance with the accounting policy adopted for subsidiaries and non-controlling interests; and

– gain on deemed disposal or partial disposal of subsidiaries where the Group's interest in a subsidiary is increased without losing control in accordance with the accounting policy adopted for subsidiaries and non-controlling interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. CAPITAL AND RESERVES *(CONTINUED)*

(b) Nature and purpose of reserves *(Continued)*

(v) Share option reserve

This reserve represents the fair value of the actual or estimated number of unexercised share options granted to eligible persons, including any full-time and part-time employees, Directors, consultants or advisors of the Company and its subsidiaries or any associate of the Company, recognised in accordance with the share option scheme which is set out in the section headed "Share Option Schemes" in Report of the Directors of this report.

(vi) Convertible bonds reserves

The convertible bonds reserves represent the equity components of the convertible bonds issued. Convertible bonds issued are split into liability and equity components at initial recognition at the fair values of the convertible bonds, which is determined by independent qualified professional valuers.

(vii) Warrants reserve

The warrants reserve represents the fair value of the unexercised warrants issued by the Group recognised in accordance with the Group's accounting policy adopted for equity instruments.

(c) Distributability of reserves

The Company had distributable reserves of HK$327,931,443 at 31 December 2018 (2017: HK$252,358,893), which include the Company's share premium and accumulated losses.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of debt to capital ratio. Debt is calculated as aggregate of bank loans and other loans. Total equity comprises all components of equity attributable to the owners of the Company.

During the year ended 31 December 2018, the Group has complied with all the externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. CAPITAL AND RESERVES *(CONTINUED)*

(d) Capital management *(Continued)*

The following is the debt to capital ratio at the end of each reporting year:

	2018	2017
	HK$	HK$
Debt (note (a))	**521,061,637**	418,335,854
Total equity (note (b))	**418,027,838**	488,119,700
Debt to capital ratio	**55.5%**	46.2%

Notes:

(a) Debt comprises bank loans, other loans and convertible bonds as detailed in notes 32 and 33 respectively.

(b) Equity includes all capital and reserves attributable to owners of the Company.

37. ACQUISITION OF SUBSIDIARIES

Name of subsidiaries	Principal activity	Date of acquisition	Proportion of shares acquired
Suzhou Zhihua Group	Development, production and sale of ADAS products	1 December 2017	36.61%

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37. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

	Suzhou Zhihua Group HK$
Property, plant and equipment	12,175,892
Construction in progress	469,474
Available-for-sale investments	2,374,011
Inventories	58,311,357
Trade and bills receivables	143,993,346
Prepayments, deposits and other receivables	11,031,224
Pledged bank deposits	12,992,100
Cash and cash equivalents	11,831,340
Trade and bills payables	(102,569,404)
Other payables and accruals	(14,046,796)
Borrowings	(76,771,500)
Net assets acquired	59,791,044

The receivables acquired in these transactions with a fair value of HK$143,993,346 for Suzhou Zhihua Group were approximate to their gross contractual amounts and no balance was expected to be uncollectible.

Goodwill arising on acquisition:

	HK$
Cash consideration	156,630,726
Fair value of warrants (note (i))	5,040,560
Fair value of investments in Suzhou Zhihua Group held by the Group (note (iii))	21,613,393
Add: non-controlling interests (note (ii))	37,899,031
Less: fair value of identifiable net assets acquired	(59,791,044)
Goodwill arising on acquisition	161,392,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

Goodwill arising on acquisition: *(Continued)*

Notes:

(i) The amount represents the fair value of 30,000,000 warrants issued by the Company as part of consideration to Suzhou Yinwo Investment Management Enterprise (Limited Partnership) which based on the valuation performed by independent valuer using Binomial Tree Model.

Each warrant carries the right to subscribe for one warrant share at the subscription price of HK$0.85 per warrant share.

The inputs and methodology used for the calculation of the fair value of the warrants are as follows:

	At 1 December 2017
Share price:	HK$0.73
Warrant life:	2 years
Risk-free rate:	1.89%
Dividend yield:	0%
Volatility:	55.46%

(ii) The amount represents the 63.39% of non-controlling interests of Suzhou Zhihua Group acquired identifiable net assets at fair value.

(iii) The amount represents the fair value of 6% equity interests of the issued share capital of Suzhou Zhihua which acquired on 3 March 2017 at a total consideration of RMB18.0 million (equivalent to approximately HK$21.6 million).

Net cash outflow on acquisition of subsidiaries:

	Suzhou Zhihua Group HK$
Consideration paid in cash	156,630,726
Less: cash and cash equivalent balances acquired	(24,823,440)
Net cash outflow	131,807,286

Impact of acquisition on the results of the Group

Revenue of HK$328,004,405 and loss of HK$9,052,021 contributed by Suzhou Zhihua Group, were recognised in the Group's loss for the year ended 31 December 2018.

Had these business combination be effective on 1 January 2017, the revenue of the Group would have been approximately HK$258.5 million and the profit for the year would have been HK$540,774 for the year ended 31 December 2017. The Directors consider these number to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

38. IMPAIRMENT TESTING ON CASH-GENERATING UNITS

Development, production and sales of ADAS products

The Group carried out an impairment testing on this CGU. The review was performed by an independent qualified valuer as at 31 December 2018 and the value in use of the CGU has been measured by using cash flow projection based on the cash flows covering a 5-year period with discount rate and terminal growth rate of 12.75% (2017: 12.31%) and 3% (2017: 3%) respectively. No impairment loss has been recognised during the year ended 31 December 2018 (note 21). Any adverse change in assumptions used in the calculation of recoverable amount of the CGU would result in impairment loss on the goodwill.

Finance lease of motor vehicles and equipment

The Group carried out an impairment testing on this CGU. The review was performed by an independent qualified valuer as at 31 December 2018 and 2017 and the value in use of the CGU has been measured by using cash flow projection based on the cash flows covering a 5-year period with discount rate and terminal growth rate of 9.62% (2017: 15.25%) and 3% (2017: 3%) respectively. No impairment loss has been recognised during the year ended 31 December 2018 and 2017 (note 21). Any adverse change in assumptions used in the calculation of recoverable amount of the CGU would result in impairment loss on the goodwill.

Sale of automotive electronic products and safety spare parts

The Group carried out an impairment testing on this CGU. The review was performed by an independent qualified valuer as at 31 December 2017 and the value in use of the CGU has been measured by using cash flow projection based on the cash flows covering a 7-year period with discount rate of 21.34% as at 31 December 2017 since no more revenue will be generated.

An impairment loss of HK$3,581,132 has been recognised and allocated to the intangible assets which allocated to this CGU during the year ended 31 December 2017 (note 20).

The key assumptions included in the cash flows projection to the above CGUs were as follows:

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

- The availability of finance will not be a constraint on the forecast growth of the CGUs in accordance with the projection;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. IMPAIRMENT TESTING ON CASH-GENERATING UNITS *(CONTINUED)*

Sale of automotive electronic products and safety spare parts *(Continued)*

- Market trends and conditions where the CGUs operate will not deviate significantly from the economic forecasts in general;
- Key management, competent personnel, and technical staff will all be retained to support ongoing operations of the CGUs;
- There will be no material changes in the business strategy of the CGUs and its operating structure;
- Interest rates and exchange rates in the localities for the operation of the CGUs will not differ materially from those presently prevailing;
- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organisation required to operate in the localities where the CGUs operate or intend to operate will not be officially obtained and renewable upon expiry unless otherwise stated; and
- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the CGUs operate or intend to operate, which would adversely affect the revenues and profits attributable to the CGUs.

39. COMMITMENTS AND CONTINGENCIES

At 31 December 2018 and 2017, the total future minimum lease payments under non-controllable operating leases were payable as follows:

	2018 **HK$**	2017 HK$
Within 1 year	**4,188,050**	4,517,600
After 1 year but within 5 years	**3,407,120**	2,383,547
	7,595,170	6,901,147
Capital expenditure in respect of the acquisition of a subsidiary contracted for but not provided in the consolidated financial statement	**7,904,483**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions during the year.

(a) Transaction with related party

	2018 HK$	2017 HK$
Interest paid on the convertible bond subscribed by a shareholder:		
Tuspark Venture	**2,991,781**	3,369,863

(b) Compensation to key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 14 and certain of the highest paid employee as disclosed in note 15, is as follows:

	2018 HK$	2017 HK$
Short-term employee benefits	**9,180,553**	13,260,967
Post-employment benefits	**84,000**	117,000
Share-based payments	**2,126,749**	9,875,567
	11,391,302	23,253,534

Total remuneration is included in "staff costs" (see note 12).

41. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to bills payables or borrowings of the Group as follows:

	2018 HK$	2017 HK$
Bills receivables	**8,203,885**	16,948,622
Pledged bank deposits	**50,344,939**	63,177,893
	58,548,824	80,126,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$	2017 HK$
Non-current assets		
Property, plant and equipment	**19,056**	26,956
Investments in subsidiaries	**148**	37,265,565
Available-for-sale investments	**–**	778,000
Financial assets at fair value through other comprehensive income	**804,982**	–
	824,186	38,070,521
Current assets		
Prepayments and other receivables	**133,908,078**	26,805,481
Amounts due from subsidiaries	**662,118,772**	496,855,592
Pledged bank deposits	**48,065,733**	54,526,508
Cash and cash equivalents	**5,989,415**	43,830,303
	850,081,998	622,017,884
Current liabilities		
Other payables and accruals	**13,182,258**	2,903,100
Borrowings	**35,550,000**	–
Convertible bonds	**58,282,301**	–
	107,014,559	2,903,100
Non-current liabilities		
Deferred tax liabilities	**4,450,766**	4,396,883
Convertible bonds	**329,443,363**	334,352,226
	333,894,129	338,749,109
Net current assets	**743,067,439**	619,114,784
Net assets	**409,997,496**	318,436,196

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

	2018	2017
	HK$	HK$
Capital and reserves		
Share capital	**13,231,849**	9,281,849
Reserves	**396,765,647**	309,154,347
Total equity	**409,997,496**	318,436,196

Approved and authorised for issue by the Board of Directors on 28 March 2019.

Ma Chi Kong Karl	**Du Peng**
Chairman	*Director*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Reserve of the Company

	Share capital HK$	Share premium HK$	Share option reserve HK$	FVTOCI reserve HK$	Convertible bonds reserves HK$	Accumulated losses HK$	Total HK$
As at 1 January 2017	9,281,849	477,037,709	13,590,585	–	15,066,157	(173,790,132)	341,186,168
Loss for the year	–	–	–	–	–	(51,182,693)	(51,182,693)
Issue of convertible bond	–	–	–	–	22,178,368	–	22,178,368
Deferred taxation of convertible bonds	–	–	–	–	(3,906,931)	–	(3,906,931)
Share-based payments	–	–	10,161,284	–	–	–	10,161,284
Lapse of share option	–	–	(294,009)	–	–	294,009	–
As at 31 December 2017 and 1 January 2018	9,281,849	477,037,709	23,457,860	–	33,337,594	(224,678,816)	318,436,196
Other comprehensive loss for the year net of income tax	–	–	–	(755,019)	–	–	(755,019)
Loss for the year	–	–	–	–	–	(133,303,911)	(133,303,911)
Issue of shares	3,950,000	202,185,590	–	–	–	–	206,135,590
Issue of convertible bond	–	–	–	–	20,418,727	–	20,418,727
Deferred taxation of convertible bonds	–	–	–	–	(3,369,090)	–	(3,369,090)
Share-based payments	–	–	2,435,003	–	–	–	2,435,003
Lapse of share option	–	–	(6,690,871)	–	–	6,690,871	–
As at 31 December 2018	13,231,849	679,223,299	19,201,992	(755,019)	50,387,231	(351,291,856)	409,997,496

43. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings HK$	Convertible bonds HK$	Total HK$
As at 1 January 2018	83,983,628	334,352,226	418,335,854
Changes from financing cash flows:			
Proceeds from borrowings	126,920,518	–	126,920,518
Repayment of borrowings	(71,724,555)	–	(71,724,555)
Interest paid	(15,877,169)	(14,991,781)	(30,868,950)
Total changes from financing cash flows	123,302,422	319,360,445	442,662,867
Other changes:			
Interest expenses	15,877,169	38,092,165	53,969,334
Set-off other payables	–	30,273,054	30,273,054
Foreign exchange movement	(5,843,618)	–	(5,843,618)
Total other changes	10,033,551	68,365,219	78,398,770
As at 31 December 2018	133,335,973	387,725,664	521,061,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(CONTINUED)*

	Borrowings HK$	Convertible bonds HK$	Total HK$
As at 1 January 2017	9,667,984	46,132,190	55,800,174
Changes from financing cash flows:			
Proceeds from borrowings	20,734,599	–	20,734,599
Proceeds from issuing of convertible bonds	–	277,821,632	277,821,632
Payment for transaction costs attributable to issuing of convertible bond	–	(1,500,000)	(1,500,000)
Repayment of borrowings	(24,467,315)	–	(24,467,315)
Interest paid	(1,815,924)	(10,109,588)	(11,925,512)
Total changes from financing cash flows	4,119,344	312,344,234	316,463,578
Other changes:			
Acquisition of subsidiaries	76,771,500	–	76,771,500
Interest expenses	1,815,924	22,007,992	23,823,916
Foreign exchange movement	1,276,860	–	1,276,860
Total other changes	79,864,284	22,007,992	101,872,276
As at 31 December 2017	83,983,628	334,352,226	418,335,854

45. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2018, (i) the 145,000,000 subscription shares at the total consideration of HK$77,865,000, which will be payable in cash as to HK$33,938,412 and as to HK$43,926,588 by way of the set off other payables and (ii) all of the CB 3 at the consideration of 100% of the aggregation principal amount of HK$53,700,000, which will be payable by way of the set off of other payables.

During the year ended 31 December 2017, (i) the acquisition of 14% of the entire issued share capital of Suzhou Ziguang Innovative Education Development Company Limited and together with its subsidiaries was settled by other payables of HK$93,802,144, and (ii) the Company issued 30,000,000 warrants with fair value of HK$5,040,560 as part of consideration for acquisition of 36.61% of equity interests in Suzhou Zhihua Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

46. EVENTS AFTER THE REPORTING PERIOD

Connected Transaction in Relation to Issue of New Shares and Convertible Bonds to Tuspark Venture under Specific Mandate; and Issue of New Shares to E-town under Specific Mandate

References are made to the announcements of the Company dated 11 January 2019, 15 January 2019, 30 January 2019 and 27 February 2019. The Company and Tuspark Venture Investment Ltd. ("Tuspark Venture") entered into a subscription agreement to allot and issue 239,345,003 new shares at the price of HK$0.6084 per share and the 0% coupon convertible bonds due 2025 in the aggregate principal amount of HK$89,882,500 at the total consideration representing 100% of the principal amount which may be converted into 147,735,865 conversion shares at the initial conversion price of HK$0.6084 per Share on 11 January 2019 (the "Tuspark Subscription"). On 11 January 2019, the Company and E-Town International Holding (Hong Kong) Co., Limited entered into a subscription agreement to allot and issue, 387,080,868 new Shares at the price of HK$0.6084 per Share (the "E-Town Subscription"). Pursuant to the Listing Rules, each of the Tuspark Subscription and the E-Town Subscription were subject to Shareholders' approval and Tuspark Venture is a substantial shareholder of the Company and therefore the Tuspark Subscription constituted a connected transaction of the Company. The net proceeds were approximately HK$470.0 million and the Company intended to apply the net proceeds for settlement of the consideration for the acquisition of Telit Automotive Solutions NV. The completion took place on 27 February 2019.

References are made to the announcements of the Company dated 30 January 2019 and 27 February 2019. The Company, Dawin (H.K) Limited ("Dawin") and Mr. Piao Xingfeng, the ultimate beneficial owner of entire issued share capital of Dawin ("Mr. Piao") entered into a subscription agreement, pursuant to which Dawin conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 45,000,000 new shares ("Subscription Shares") at the price of HK$0.6084 per share under general mandate. The total consideration for the Subscription Shares was HK$27,380,000 and settled by way of set off against the equivalent amount of the outstanding loan amount of the unsecured loan facilities of up to US$8 million granted by Mr. Piao to the Company pursuant to the loan agreement dated 7 June 2018 entered into between the Company as borrower and Mr. Piao as lender, as amended and supplemented by the supplemental agreements dated 14 September 2018 and 28 January 2019 entered into by the same parties. Thus, no cash proceed was received by the Company from the subscription. The completion took place on 27 February 2019

Saved as disclosed above, so far as is known to the Directors, there are no other subsequent events occurred after 31 December 2018, which may have significant effects, on the assets and liabilities of future operations of the Group.

47. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2 of this annual report.

48. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2018

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$	HK$	HK$	HK$	**HK$**
Operating results					
Revenue	184,878,802	194,606,323	216,801,681	202,692,616	**457,237,213**
Loss before taxation	(136,299,564)	(199,461,182)	(40,362,088)	(80,846,051)	**(130,077,538)**
Taxation	1,186,020	(1,851,358)	2,564,082	10,322,568	**1,608,306**
Loss for the year	(135,113,544)	(201,312,540)	(37,798,006)	(70,523,483)	**(128,469,232)**
Attributable to:					
Owners of the Company	(96,080,590)	(144,698,559)	(30,608,215)	(75,283,337)	**(122,384,844)**
Non-controlling interests	(39,032,954)	(56,613,981)	(7,189,791)	4,579,854	**(6,084,388)**
Loss for the year	(135,113,544)	(201,312,540)	(37,798,006)	(70,523,483)	**(128,469,232)**
Loss per share					
– Basic and diluted	(16.35) cents	(17.18) cents	(3.30) cents	(8.11) cents	**(11.69) cents**
Assets and liabilities					
Non-current assets	132,166,912	152,883,908	260,742,587	699,594,870	**661,130,933**
Net current assets	381,354,415	379,284,814	276,977,226	172,154,333	**120,182,327**
Total assets less current liabilities	513,521,327	532,168,722	537,719,813	871,749,203	**781,313,260**
Non-current liabilities	(16,538,705)	(14,541,595)	(57,335,132)	(338,749,109)	**(333,894,129)**
Net assets	496,982,622	517,627,127	480,384,681	533,000,094	**447,419,131**
Capital and reserves					
Share capital	7,368,209	9,281,849	9,281,849	9,281,849	**13,231,849**
Reserves	521,420,638	531,707,336	517,662,384	478,837,851	**404,795,989**
Equity attributable to owners of the Company	528,788,847	540,989,185	526,944,233	488,119,700	**418,027,838**
Non-controlling interests	(31,806,225)	(23,362,058)	(46,559,552)	44,880,394	**29,391,293**
Total equity	496,982,622	517,627,127	480,384,681	533,000,094	**447,419,131**