



啟迪國際有限公司

TUS International Limited

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 872

ANNUAL
REPORT 2017



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Yang Ming
Mr. Tsang Ling Bui, Gilbert
Mr. Qin Zhiguang

Independent Non-executive Directors

Hon. Quat Elizabeth (*JP*)
Mr. Poon Chiu Kwok
Mr. Chen Jin
Mr. Wong Yuk Lun, Alan

COMPANY SECRETARY

Mr. So Yiu Fung

AUTHORISED REPRESENTATIVES

Mr. Woo Kar Tung Raymond
Mr. So Yiu Fung

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

WEBSITE OF THE COMPANY

www.tus-i.com

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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39 Queen's Road Central
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
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LEGAL ADVISERS

As to Hong Kong Law:
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As to Cayman Island Law:
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Grand Cayman KY1-1111
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

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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 financial year ended 31 December 2017 in this report.

BUSINESS REVIEW

In the second half of 2017, Suzhou Zhihua Automobile Electronics Co., Ltd. and its subsidiary ("Suzhou Zhihua") has become major subsidiaries of the Company. It is a significant milestone for the Group to set an initial strong foothold in the intelligent connected vehicles business. Suzhou Zhihua is engaged in development, production and sale of advanced driving assistance system (ADAS) products. Suzhou Zhihua has abundant reserves in camera-based ADAS solutions and artificial intelligence algorithm, and the various state-of-the-art ADAS solutions offered by Suzhou Zhihua include around view monitor (AVM), lane departure warning (LDW), forward collision warning (FCW), pedestrian detection, night vision, blind spot detection and driver fatigue monitoring, have already been in mass production. It is one of the Group's key business strategies to develop autonomous driving solutions, which is based on deep fusion of sensors, via Suzhou Zhihua as the major platform. Suzhou Zhihua owns a high quality and diverse customer base including major Chinese domestic brands and joint venture brands, such as Guangzhou Automobile, SAIC GM Wuling Automobile, Geely Automobile, Zotye Automobile, Dongfeng Nissan, BAIC Motor and Changan Automobile. We are targeting to use this valuable customer network as a key inroad for other products to be developed by the Group for the Chinese market in the near future. Suzhou Zhihua's performance has been impressive in the past several years. Revenue of Suzhou Zhihua has grown by approximately 230% per annum on a compound basis since 2014. It recorded total annual revenue of approximately HK\$258.5 million in 2017. The Group started consolidating the financial results of Suzhou Zhihua since 1 December 2017, and we look forward to Suzhou Zhihua full year contribution in 2018.

In October 2017, we have established TUS Cloud Control (Beijing) Technology Limited* (啟迪雲控(北京)科技有限公司) ("TUS Cloud Control"), our subsidiary which focuses on the development of the technologies for the intelligent connected vehicles cloud control platform. TUS Cloud Control has been leveraging Tsinghua University's scientific research capabilities and the long-term cultivation of talent in actively developing the cloud control platform for intelligent and connected vehicles and applications, and promoting autonomous driving and cloud control demonstration in various regions at the same time. Total investment in the TUS Cloud Control is expected to be RMB100.0 million and we own 70% equity stake in this joint venture. TUS Cloud Control shall closely cooperate with the National Innovation Center (as defined below) and promote the project of the national big data cloud control platform for intelligent connected vehicles.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW (*CONTINUED*)

The Group has also been actively implementing China's strategy of intelligent and connected vehicles. In March 2018, we became one of the 12 founding members to jointly establish the National Innovation Center of Intelligent Connected Vehicles (the "National Innovation Center"). The National Innovation Center is 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. The center shall closely cooperate with its shareholders and corresponding institutes in the development and commercialisation of various forward-looking and common technologies. It is also believed that the National Innovation Center can provide a wide range of support to the cloud control platform technologies, the new generation of vehicle computing platform and the new generation of onboard terminal which are being developed by the Group. Therefore, we invested RMB50.0 million in the National Innovation Center to participate in the relevant research activities. The National Innovation Center also undertakes the formation of the intelligent and connected vehicle innovation platform promoted by the National Development and Reform Commission ("NDRC") which shall focus on top-level design and collaboration in industry level.

The Group has completed its transformation to intelligent and connected vehicle business in 2017. We are 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 in the near future.

OTHER BUSINESSES

Our finance lease business, focusing on finance lease of motor vehicles and equipment, contributed approximately HK\$115.3 million to our revenue in 2017, representing an increase of approximately 27.8% as compared to 2016 due to increase in interest element of the lease receipts on lease receivables when it falls due and increase in numbers of contract signed. Funding of the finance lease business primarily comes from overseas by way of equity which is denominated in Hong Kong or US dollars. During the year, we explored other means of financing via bank and foreign funds but decided not to proceed after considering the foreign exchange exposure and relatively high cost of capital. Inflow and outflow of capital controls remained stringent throughout 2017. Under a more regulated industry backdrop, we put on hold any expansion plan in our finance lease business.

Suzhou Yadu Cloud Technology Co. Limited ("Yadu Cloud"), which specialised in research and development of car-carried purifiers and related air technology, commenced operations after some delays due to prolonged administrative and approval procedure. Beijing has introduced effective measures to combat the polluted smog and as a result, recorded its largest improvement on record in air quality in 2017. According to some environmental organisations, the average concentration of PM2.5 fell by more than 20% in 2017. Although 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. The Company will from time to time monitor the business performance of Yadu Cloud and adjust our strategy in the car-carried purifiers business as and when appropriate.

With the expectation of contribution of Suzhou Zhihua to increase significantly in 2018 due to full year of consolidation, it will dwarf the significance of operations of both car-carried purifiers and finance leases in the near future. Both operations will become non-core businesses of the Group.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PROSPECTS

After the successful transformation to cloud control and intellectual autonomous driving in 2017, we are now becoming one of the most influential players in the intelligent and connected vehicles industry in China. The above initiatives, namely our investment in Suzhou Zhihua, the establishment of the cloud technology platform through TUS Cloud Control, and our involvement in the National Innovation Center, put us into an enviable position to participating in the national innovation development strategy for intelligent and connected vehicles, seizing the commercial opportunities during the process. These initiatives are consistent with the strategy laid out by the Policy Research Center of the NDRC. Recently, NDRC had commenced developing the national innovation development strategy for intelligent and connected vehicles in the PRC. Through the connections of Tsinghua University alumnus network, we have accumulated certain top talents in the industry to our senior management team, including Mr. Li Keqiang who is our chief scientist. Mr. Li is a professor of Tsinghua University (Department of Automotive Engineering), the general director of The Society of Automotive Engineers of China, the chairman of the Expert Committee of China Industry Innovation Alliance for the Intelligent and Connected Vehicles and the chief technology officer of the National Innovation Center. In 2018, we will continue seeking the strategic merger and acquisition opportunities overseas, targeting at acquiring technologies as our first priority and broadening the commercial application of such technologies in China by leveraging on our intellectual and connected vehicle platform.

APPRECIATION

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

Ma Chi Kong Karl

Chairman

Hong Kong, 26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

FINANCIAL REVIEW

For the year ended 31 December 2017, the revenue and the average gross profit margin of the Group were approximately HK\$202.7 million and approximately 13.2% respectively, while it were approximately HK\$216.8 million and approximately 9.0% respectively in last year. Revenue for the year ended 31 December 2017 decreased by approximately 6.5% which was mainly due to no car trading revenue in Hong Kong offset with our expansion into the ADAS products via acquisition of Suzhou Zhihua and its subsidiary (collectively, “Suzhou Zhihua Group”) and the increase in finance lease income.

The revenue of the Group’s ADAS and other automotive components increased by approximately 54.0% from approximately HK\$17.5 million for the year ended 31 December 2016 to approximately HK\$26.9 million for the year ended 31 December 2017. The increase was mainly attributable to the acquisition of Suzhou Zhihua Group via increase in sales volume of its ADAS products. New segment in relation to car-carried purifiers arised during the year ended 31 December 2017. The revenue of the Group’s car-carried purifiers amounting to approximately HK\$5.9 million in the current year due to the final transfer of the car-carried purifiers business from Suzhou Yadu Environmental Protection Technology Co. Limited to our subsidiary in June 2017. The revenue of the Group’s car trading decreased by approximately 50.0% from approximately HK\$109.1 million for the year ended 31 December 2016 to approximately HK\$54.5 million for the year ended 31 December 2017. The decrease was mainly due to no car trading revenue in Hong Kong. The revenue of the Group’s finance lease of motor vehicles and equipment increased by approximately 27.8% from approximately HK\$90.2 million for the year ended 31 December 2016 to approximately HK\$115.3 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in interest element of the lease receipts on lease receivables when it falls due and increase in number of contracts signed in 2017.

For the year ended 31 December 2017, the Group recorded approximately HK\$4.2 million of other revenue while it was approximately HK\$1.1 million last year. The increase was mainly due to the increase in bank interest income as part of the net proceeds from HK\$300.0 million convertible bond issued in 2017 was kept in the bank as pledged bank deposits to earn interest income.

For the year ended 31 December 2017, the Group recorded approximately HK\$5.2 million of other loss (net) while it was approximately HK\$16.9 million last year. The decrease was mainly due to decrease in provision for impairment loss recognised on other receivables and intangible assets.

In 2017, the administrative expenses of the Group were approximately HK\$70.5 million, which was increased by approximately HK\$7.3 million as compared with 2016. This was mainly due to the acquisition of Suzhou Zhihua Group and the increase in number of staff in Beijing during the year ended 31 December 2017.

The finance costs in 2017 were increased by approximately HK\$19.3 million to approximately HK\$23.8 million as compared with 2016. This was mainly due to the increase in interest on convertible bonds issued during the year and last year.

During the year ended 31 December 2017, the Group recorded no gain on disposal of subsidiaries (2016: approximately HK\$27.0 million).

For the year ended 31 December 2017, the loss attributable to the owners of the Company increased by approximately 146.0% to approximately HK\$75.3 million, while it was approximately HK\$30.6 million last year. The increase in loss was mainly due to the increase in interest on convertible bonds issued from approximately HK\$3.2 million in 2016 to approximately HK\$22.0 million in 2017, and no gain on disposal of subsidiaries in the current year (2016: approximately HK\$27.0 million) as discussed above. Save for these two factors, such loss decreased by approximately 2.0% to approximately HK\$53.3 million for the year ended 31 December 2017 (2016: approximately HK\$54.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK\$126.6 million (2016: approximately HK\$143.8 million) and net current assets of approximately HK\$172.2 million which was decreased by approximately HK\$104.8 million as compared with the previous financial year. The decrease in cash and cash equivalents was mainly due to the acquisition of Suzhou Zhihua and 14% equity interests in Suzhou Ziguang, offset with the issuance of HK\$300.0 million convertible bonds to the subscribers during the year. Details of the acquisition of Suzhou Zhihua Group are set out in the section headed “Material Acquisitions and Disposals – Acquisition of controlling stake in Suzhou Zhihua” in this report and details of the issuance of HK\$300.0 million convertible bonds was stated below. Details of the acquisition of Suzhou Ziguang are set out in the announcement of the Company dated 3 November 2016 and the circular of the Company dated 14 December 2016, respectively. The total non-current assets of the Group were approximately HK\$699.6 million in 2017, while it was approximately HK\$260.7 million last year. The increase in total non-current assets was mainly due to goodwill arising on acquisition of Suzhou Zhihua, intangible assets acquired and acquisition of 14% equity interests in Suzhou Ziguang at a consideration of RMB126.8 million (approximately HK\$145.4 million) during the year which was accounted as available-for-sale investments of the Group. Intangible assets acquired during the year represents trademarks and patent for acquisition of car-carried purifiers business.

As at 31 December 2017, the Group had non-current liabilities of approximately HK\$338.7 million, which was increased by approximately HK\$281.4 million as compared with the previous financial year. The increment was mainly due to the convertible bond issued in 2017. On 1 March 2017, the Company entered into a subscription agreement with Tuspark Venture Investment Ltd., Munsun Smart Mobility Fund LP and CM Securities Investment Limited (collectively the “Subscribers”) (as subscribers) and CM Securities (Hongkong) Company Limited (as sole lead arranger), pursuant to which (among others) each of the Subscribers conditionally agreed to subscribe the convertible bond (the “CB 2”) of HK\$100.0 million and the Company conditionally agreed to issue the convertible bond in an aggregate principal amount of and for a price no more than HK\$300.0 million. Completion took place on 9 June 2017. The CB 2 initially matures at the second anniversary of the issue date (i.e. 8 June 2019). The initial conversion price was HK\$0.9103 per conversion share. Details of the CB 2 were set out in the Company’s announcements dated 1 March 2017, 10 March 2017, 13 April 2017 and 9 June 2017, and the circular of the Company dated 27 March 2017. As at the date of this report, approximately HK\$184.2 million of the total net proceeds has been used by the Group for acquisition of equity interests in Suzhou Zhihua. Details of the acquisition of Suzhou Zhihua Group are set out in the section headed “Material Acquisitions and Disposals – Acquisition of controlling stake in Suzhou Zhihua” in this report. Approximately HK\$2.3 million of the total net proceeds has been used by the Group for acquisition of targets in smart mobility and related sector. Approximately HK\$57.9 million of the total net proceeds has been used for general corporate purpose. Approximately HK\$43.0 million was kept in the bank as pledged bank deposits. The remaining balance for the amount of approximately HK\$8.1 million was kept in the bank for future potential acquisition of targets in the smart mobility and related sector in automobile industry and/or general corporate purpose of the Group.

The Group also had short-term borrowings of approximately HK\$84.0 million which represented other loans of approximately HK\$15.5 million and bank loans of approximately HK\$68.5 million in the consolidated statement of financial position. Such loans were obtained from banks and independent third parties with interest rates of 4.4%-8.5% which were not yet matured at the year end date. The short-term borrowings were primarily used to finance short-term cash flows for the operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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 and Hong Kong dollars. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2017, 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 2017, approximately RMB40.0 million financial assistance provided by the Company to Suzhou Zhihua was pledged with bank deposits amounting to RMB42.4 million. Bills payables were also pledged with bank deposits and bills receivables amounting to approximately HK\$8.7 million and HK\$16.9 million respectively. Save as disclosed herein, there were no pledge of assets by the Group.

GEARING RATIO

The Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 57.1% in 2017 from 16.3% in 2016. The increase in the gearing ratio was due to the issuance of the HK\$300.0 million convertible bonds in 2017.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those set out in the "Subsequent Events" and "Business Review" in this report, the Group did not have other authorised but not contracted for capital expenditure commitments as at 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS

Termination agreements in respect of joint venture arrangements

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

Formation of an equity joint venture

On 17 February 2017, Sunny Voyage Limited ("Sunny Voyage"), a direct wholly-owned subsidiary of the Company, entered into a joint venture agreement with TusStar Incubator Investment Ltd ("TusStar") in relation to a proposed formation of an equity joint venture company to be established in the BVI, with limited liability by Sunny Voyage and TusStar pursuant to the terms of the joint venture agreement. The joint venture company shall be owned as to 50% by Sunny Voyage and 50% by TusStar. The joint venture company has been set up on 17 March 2017.

Acquisition of controlling stake in Suzhou Zhihua

Suzhou Qiyizhi Management Enterprise Limited* (蘇州企億智企業管理有限公司) ("Suzhou Qiyizhi"), being an indirect wholly-owned subsidiary of the Company, entered into (1) an agreement with Shanghai Dachen Hengsheng Venture Capital Centre (Limited Partnership) ("Dachen Hengsheng"), Mr. Xiong Renjie ("Mr. Xiong") and Suzhou Zhihua on 3 March 2017, and pursuant to which Suzhou Qiyizhi agreed to acquire 3.4496% equity interests in Suzhou Zhihua from Dachen Hengsheng and 1.5504% equity interests in Suzhou Zhihua from Mr. Xiong in total consideration of RMB15.0 million; (2) an agreement with Suzhou Junqi Shihe Investment Management Enterprise (Limited Partnership) ("Suzhou Junqi") and Suzhou Zhihua on 3 March 2017, and pursuant to which Suzhou Qiyizhi agreed to acquire 1% equity interests in Suzhou Zhihua from Suzhou Junqi in consideration of RMB3.0 million; (3) a co-operation agreement with Suzhou Zhihua and Suzhou Yinwo Investment Management Enterprise (Limited Partnership) ("Suzhou Yinwo") in relation to the provision of financial assistance in the total amount of RMB40.0 million by the Company to Suzhou Zhihua, and the grant of an option by Suzhou Zhihua to Suzhou Qiyizhi pursuant to which Suzhou Qiyizhi or its designated nominee shall be entitled to (should it choose to) contribute to the capital increase of Suzhou Zhihua (the "Suzhou Zhihua Option") on 3 March 2017; (4) two equity transfer agreements with Dachen Hengsheng and another independent third party on 9 August 2017 and 25 August 2017, respectively, pursuant to which Suzhou Qiyizhi conditionally agreed to further acquire an aggregate of 17.6039% equity interests in Suzhou Zhihua from the above parties in the total amount of approximately RMB70.4 million; (5) an equity transfer agreement with SDIC High-Tech (Shenzhen) Venture Capital Fund (Limited Partnerships) ("SDIC High-Tech") and Suzhou Yinwo on 15 September 2017, and pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 8.0103% equity interests in Suzhou Zhihua from SDIC High-Tech and assume the obligation of SDIC High-Tech under the capital increase agreement relevant to the grant of the share award to Suzhou Yinwo in consideration of RMB32.0 million; and (6) an equity transfer agreement with Suzhou Yinwo on 15 September 2017, and pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 5% equity interests in Suzhou Zhihua from Suzhou Yinwo and Suzhou Yinwo also conditionally agreed to release the obligation of Suzhou Qiyizhi to grant the share award in cash consideration of RMB28.0 million and the issue of the warrants by the Company to Suzhou Yinwo.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS (*CONTINUED*)

Acquisition of controlling stake in Suzhou Zhihua (*Continued*)

Suzhou Qiyizhi has also entered into an equity transfer agreement with Suzhou Huaye Automobile Technology Development Company Limited* (蘇州華業汽車科技發展有限公司) (“Suzhou Huaye”) on 20 March 2018 and pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 4.2636% equity interests in Suzhou Zhihua from Suzhou Huaye in consideration of RMB17.0 million (“Suzhou Huaye Transaction”).

As the date of this report, all the abovementioned acquisitions (other than the Suzhou Huaye Transaction and the Suzhou Zhihua Option) have been completed. The Company is currently indirectly holds an aggregate of 36.61% equity interests in Suzhou Zhihua Group and the financial results of Suzhou Zhihua Group has been consolidated to the financial statements of the Group since 1 December 2017. Upon full exercise of the Suzhou Zhihua Option and completion of the Suzhou Huaye Transaction, it is expected that the Company will then indirectly holds an aggregate of approximately 48.14% equity interests in Suzhou Zhihua Group.

Formation of TUS Cloud Control

On 16 October 2017, TUS Yunzhi Technology (Beijing) Limited* (啟迪雲智科技(北京)有限公司) (“TUS Yunzhi”), an indirect wholly-owned subsidiary of the Company, Tianjin Qingyun Intelligent Control Technology Limited* (天津清雲智控科技有限公司) (which is the equity pool to offer share to incentive the entire core management team and technical team of TUS Cloud Control) (“Qingyun IC”), Mr. Li Jiawen and Mr. Zhao Xiaoyu entered into the cooperation agreement, pursuant to which the parties thereto agreed to form the joint venture (later known as TUS Cloud Control which would be owned as to 70% by TUS Yunzhi and 30% by Qingyun IC. The registered share capital of TUS Cloud Control is RMB100.0 million, of which RMB70.0 million was contributed by TUS Yunzhi in cash while Qingyun IC shall contribute the intellectual property rights it held with the valuation amount of not less than RMB30.0 million to the joint venture. The joint venture has been set up on 26 October 2017.

Establishment of the gap fund

On 18 November 2017, TusStar, The Regents of the University of Michigan and the Company entered into the 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 the University of Michigan research discoveries. As at 31 December 2017, USD100,000 (approximately HK\$778,000) has been injected in the gap fund.

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

MANAGEMENT DISCUSSION AND ANALYSIS

CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the termination of the joint venture arrangements in Kunshan, Suzhou and Nanjing, the issue of convertible bond amounting to HK\$300.0 million to, among others, Tuspark Venture Investment Ltd. and the establishment of the gap fund with TusStar and The Regents of the University of Michigan constitute connected transactions of the Company and details of which are set out in the sections headed “Material Acquisitions and Disposals – Termination agreements in respect of joint venture arrangements”, “Liquidity, Financial Resources and Funding and Treasury Policy” and “Material Acquisitions and Disposals – Establishment of the gap fund” in this report, respectively.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2017 are disclosed in note 41 to the consolidated financial statements of the Company under the standards for preparing such financial statements. Such related party transactions are not connected transactions as required to be disclosed in this report under Rule 14A.71 of the Listing Rules.

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

SUBSEQUENT EVENTS

Joint Establishment of National Innovation Center of Intelligent and connected vehicles

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

Further Acquisition of Equity Interests in Suzhou Zhihua

On 20 March 2018, Suzhou Qiyizhi, a subsidiary of the Company, entered into an equity transfer agreement with Suzhou Huaye and pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 4.2636% equity interests in Suzhou Zhihua from Suzhou Huaye in consideration of RMB17.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS (*CONTINUED*)

Proposed Issuance of Shares and New Convertible Bonds

On 17 April 2018, the Company, Mr. Ma Chi Kong Karl, Mr. Shen Xiao, Hong Kong Ben Ling International Industrial Limited, Dawin (H.K.) Limited, Mr. Cen Gangqi and Sumchi International Co., Limited (collectively, the “Subscribers”) entered into 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 ordinary shares (“Subscription Shares”) at the Subscription Price of HK\$0.537 per Subscription Share as total consideration of HK\$212,115,000 (comprising payment by cash in the amount of HK\$168,188,412 and by set off of the payables against part of the consideration payable to Mr. Ma in the amount of HK\$43,926,588); and (ii) the new convertible bonds in the aggregate principal amount of HK\$53,700,000 (full amount also by set off against part of the consideration payable to Mr. Ma) which is convertible into 100,000,000 ordinary shares (“Conversion Shares) at the initial conversion price of HK\$0.537 (subject to adjustment(s)).

The subscription is conditional upon (a) the passing of an ordinary resolution at the extraordinary general meeting (“EGM”) to approve (1) the subscription and (2) the related whitewash waiver to be sought by Mr. Ma, by the independent shareholders; (b) such whitewash waiver having been granted by the Executive and all conditions (if any) attached to the whitewash waiver having been satisfied; (c) the listing committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Subscription Shares and the Conversion Shares on the Stock Exchange; and (d) all necessary consents or waivers which may be required for the implementation of the subscription (including the issuance of the Subscription shares, the new convertible bonds and/or the Conversion Shares) under any existing contractual obligations of the Group having been obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business, assets or liabilities of the Group.

The issue of the Subscription Shares and the new convertible bonds will be made pursuant to the specific mandate to be sought from the independent shareholders at the EGM.

An application will be made by the Company to the listing committee of the Stock Exchange for the listing of, and the permission to deal in, the Subscription Shares and the Conversion shares.

Grant of Share Options

On 18 April 2018, 4,640,000 share options have been granted to Mr. Shen Xiao, 4,640,000 share options have been granted to Mr. Du Peng and 1,000,000 share options have been granted to senior management of the Company. Details of which are set out in the announcement of the Company dated on even date.

Saved as disclosed above, so far as is known to the Directors, there are no other subsequent events occurred after 31 December 2017, which may have significant effects, on the assets and liabilities of future operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group employed 373 staff in the PRC and Hong Kong, which increased by 323 staff as compared with 31 December 2016 due to the acquisition of Suzhou Zhihua Group and increase in number of staffs in Beijing in relation to the establishment of the team for development of the intelligent and connected vehicles cloud platform technologies and relevant automobile cloud business. The Group's remuneration to employees, including Directors' emoluments increased by approximately HK\$8.0 million to approximately HK\$44.7 million in 2017. The increment is mainly due to the increase in number of staff as stated above.

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

Further particulars regarding the Director's emolument and the five highest paid individuals are set out in notes 14 and 15 to the financial statements respectively.

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, like foreign exchange rates and interest rates. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2017, 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.

Economic Environment

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

RELATIONSHIPS WITH STAKEHOLDERS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ma Chi Kong Karl, aged 47, 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 22.89% of the issued share capital of the Company as at the date of this report.

Mr. Shen Xiao, aged 39, 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. He is a fellow member of the Association of Certified General Accountant of Canada and a fellow member of Chartered Financial Analyst Institute.

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

Mr. Du Peng, aged 42, has been appointed as an executive Director and vice chairman of the Company since 12 June 2015 and 12 February 2018. Mr. Du graduated in 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

EXECUTIVE DIRECTORS (*CONTINUED*)

Mr. Woo Kar Tung Raymond, aged 48, has been appointed as the chief financial officer of the Company and an executive Director since 1 September 2015. Mr. Woo holds a Bachelor degree in Commerce from The University of New South Wales and is a member of the Australian Society of Certified Practicing Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants.

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

Ms. Cheung Joanna Wai Sze, aged 30, has been appointed as an executive Director since 25 June 2015. She holds a Bachelor degree of Arts in Economics from Brown University.

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

NON-EXECUTIVE DIRECTORS

Mr. Yang Ming, aged 39, has been redesignated from an executive Director to a non-executive Director of the Company since 29 January 2018. Mr. Yang was formerly the chief operating officer of the Company and an executive Director. Mr. Yang holds a MPA (Master of Public Administration) from Harvard University, a Master degree in Management and a Bachelor degree in English and minor degree in Business Management from Tsinghua University. He is a Chinese Registered Financial Analyst (Level 1) and a Project Management Professional Certification holder. He is a committee member of finance in Western Returned Scholars Association.

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

Mr. Tsang Ling Bui, Gilbert, aged 47, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS (*CONTINUED*)

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. Qin Zhiguang, aged 62, 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, the director of Sichuan Province Research Center of Data Communication and Disaster Preparedness Technologies 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 director of the Chinese Association of Cryptologic Research, 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).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hon. Quat Elizabeth (*BBS, JP*), aged 51, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (*CONTINUED*)

Mr. Chen Jin, aged 50, has been appointed as an independent non-executive Director since 25 June 2015. Mr. Chen holds a Doctor of philosophy in Management Engineering from Zhejiang University. Mr. Chen is a professor in the Innovative Enterprise and Strategy Department and also the executive of Research Centre for Technological Innovation, Tsinghua University. He was an associate professor from 1995 to 1998 and was a professor from 1999 to 2005 in the Management Department of Zhejiang University. He was also the deputy director of The Institute for Management Science & Information Systems, Zhejiang University. Mr. Chen is also a member of the Education Committee of the Chinese Academy of Engineering (“CAE”), the member of the Division of Management Science in Science & Technology Commission of Minister of Education, etc.

Mr. Chen is currently an independent director of Shunfa Hengye Corporation (Stock Code: 00631.SZ), the share of which is listed on the Shenzhen Stock Exchange. Mr. Chen is also an independent director of Shanghai Shenqi Pharmaceutical Investment Management Co., Ltd. (Stock Code: 600613.SHH) and Gemdale Corporation (Stock Code: 600383.SHH), the shares of which are listed on the Shanghai Stock Exchange.

Mr. Poon Chiu Kwok, aged 55, 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 Certified Public Accountant Australia, 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, Audit Committee and Professional Development Committee.

Mr. Poon has over 25 years of experience in corporate finance and listed company governance and management. Mr. Poon is currently an executive director and company secretary of Huabao International Holdings Limited (a listed company on the Main Board of the Stock Exchange, stock code: 336), and also serves as an independent non-executive director of the following 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 is also a non-executive director of Chong Kin Group Holdings Limited (Stock Code: 1609).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Wong Yuk Lun, Alan, aged 43, 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.

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 Zhihua. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (*CONTINUED*)

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.

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 business development director 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 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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 performance of the Group and the prospects of its businesses (as required to be disclosed by Schedule 5 of the Hong Kong Companies Ordinance) have been discussed in the Chairman's Statement as set out on pages 3 to 5 of this report. Such discussion forms part of this Report of the Directors. The principal activities and other particulars of its subsidiaries are set out in note 22 to the consolidated financial statements.

The Group's revenue for the year is principally attributable to the sales of ADAS and other automotive components, car-carried purifiers, car trading and provision of financing service for leasing motor vehicles and equipment net of sales tax and value added tax which the sales of ADAS products started contributing the Group's revenue since 1 December 2017. An analysis of the revenue from the principal activities during the financial year is set out in note 7 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the group's businesses, and the compliance with relevant laws and regulations, as well as the Group's environmental policies and performance which have a significant impact on the Company, can be found in the Management Discussion and Analysis set out on pages 13 to 15 and the Chairman's Statement as set out on pages 3 to 5 of this report. Such discussion forms part of this Report of the Directors.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2017 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 58 to 61 and pages 157 to 158.

DIVIDEND

The Directors did not recommend the payment of final dividend in respect of the year ended 31 December 2017 (2016: HK\$Nil).

CHARITABLE DONATIONS

No donation was made by the Group during the year (2016: HK\$Nil).

FIXED ASSETS

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

REPORT OF THE DIRECTORS

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 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(a) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

BANK LOANS AND OTHER LOANS

Particulars of bank loans and other loans as at 31 December 2017 are set out in note 32 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	15%	
Five largest customers in aggregate	36%	
The largest supplier		8%
Five largest suppliers in aggregate		23%

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Ma Chi Kong Karl (*Chairman*)

Mr. Shen Xiao

Mr. Du Peng

Mr. Woo Kar Tung Raymond

Ms. Cheung Joanna Wai Sze

Non-executive Directors

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

Mr. Tsang Ling Biu, Gilbert

Mr. Qin Zhiguang (Appointed on 27 March 2018)

Mr. Sheng Ruzhi (Resigned on 31 August 2017)

Independent non-executive Directors

Hon. Quat Elizabeth (*JP*) (Appointed on 6 January 2017)

Mr. Chen Jin

Mr. Poon Chiu Kwok

Mr. Wong Yuk Lun, Alan

Hon. Shek Lai Him Abraham (*GBS, JP*) (Resigned on 6 January 2017)

DIRECTORS' SERVICE CONTRACTS

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

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

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

REPORT OF THE DIRECTORS

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Long positions in issued shares

Name of director	Capacity	Registered shareholders	Underlying interest (note 1)	Approximate percentage of shareholding (note 2)
Ma Chi Kong Karl	Beneficial Owner	65,100,000	9,280,000	8.01%
Shen Xiao	Beneficial Owner	–	119,133,894	12.24%
Du Peng	Beneficial Owner	–	9,280,000	1.00%
Woo Kar Tung Raymond	Beneficial Owner	–	9,280,000	1.00%
Cheung Joanna Wai Sze	Beneficial Owner	–	9,280,000	1.00%
Yang Ming	Beneficial Owner	–	9,280,000	1.00%
Tsang Ling Biu, Gilbert	Beneficial Owner	–	4,640,000	0.50%
Sheng Ruzhi (note 3)	Beneficial Owner	1,872,000	4,640,000	0.70%

REPORT OF THE DIRECTORS

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

Long positions in issued shares (*Continued*)

Notes:

1. These underlying interests represent the shares options granted to Mr. Ma Chi Kong Karl, Mr. Shen Xiao, Mr. Du Peng, Mr. Woo Kar Tung Raymond, Ms. Cheung Joanna Wai Sze, Mr. Yang Ming, Mr. Tsang Ling Bui, Gilbert and Mr. Sheng Ruzhi pursuant to the Share Option Scheme, and also an interest in the long position of 109,853,894 shares of the Company held by Mr. Shen Xiao.
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 2017.
3. Mr. Sheng Ruzhi has resigned as the 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 2017 was 92,818,488 shares which represented approximately 10.00% of the issued share capital of the Company as at 31 December 2017.

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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES (*CONTINUED*)

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 31 March 2017, the Company granted a total of 1,000,000 share options to 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 2017, 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:

Name	Date of grant	Exercise period	Number of share options					As at 31 December 2017	Exercise price per share
			As at 1 January 2017	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year		
Existing Directors									
Ma Chi Kong Karl	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	–	–	–	–	9,280,000	0.822
Shen Xiao	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	–	–	–	–	9,280,000	0.822
Du Peng	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	–	–	–	–	9,280,000	0.820
Woo Kar Tung Raymond	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	–	–	–	–	9,280,000	0.820
Cheung Joanna Wai Sze	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	–	–	–	–	9,280,000	0.820
Yang Ming (note)	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	–	–	–	–	9,280,000	0.822
Tsang Ling Bui, Gilbert	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	–	–	–	–	4,640,000	0.820
Former Director									
Sheng Ruzhi (resigned on 31 August 2017)	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	–	–	–	–	4,640,000	0.820
Other eligible participants									
Employees	22 January 2016	22 January 2017 – 21 January 2026	2,400,000	–	–	–	(1,000,000)	1,400,000	0.820
	31 March 2017	31 March 2018 – 30 March 2027	–	1,000,000	–	–	–	1,000,000	0.720
			67,360,000	1,000,000	–	–	(1,000,000)	67,360,000	

Note: Subsequent to the year end of 2017, Mr. Yang Ming has been redesignated from an executive Director to a non-executive Director of the Company with effect from 29 January 2018. As at 29 January 2018, Mr. Yang holds 4,640,000 share options granted under the share option scheme adopted by the Company on 19 June 2009.

On 18 April 2018, 4,640,000 share options have been granted to Mr. Shen Xiao, 4,640,000 share options have been granted to Mr. Du Peng and 1,000,000 share options have been granted to senior management of the Company. Details of which are set out in the announcement of the Company dated on even date.

REPORT OF THE DIRECTORS

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2017, 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	322,344,696	34.73%
Tus-Holdings Co., Ltd. ("Tus-Holdings")	1	Interests of controlled corporation	322,344,696	34.73%
Tsinghua Holdings Co., Ltd. ("Tsinghua Holdings")	2	Interests of controlled corporation	322,344,696	34.73%
Beijing Baijun Investment Company Limited ("Beijing Baijun")	2	Interests of controlled corporation	322,344,696	34.73%
Wang Jiwu	2	Interests of controlled corporation	322,344,696	34.73%
Tsinghua University	2	Interests of controlled corporation	322,344,696	34.73%
Ideal Team Ventures Limited ("Ideal Team")	4	Beneficial Owner	42,986,425	4.63%
Lucky Target Limited ("Lucky Target")	4	Beneficial Owner	26,018,099	2.80%
CM Securities Investment Limited ("CMSI")	5	Beneficial Owner	109,853,894	11.84%
China Minsheng Financial Holding Corporation Limited ("CMFHCL")	5	Interests of controlled corporation	109,853,894	11.84%
China Minsheng Investment Corporation Limited	5	Interests of controlled corporation	109,853,894	11.84%
Munsun Smart Mobility Fund LP ("Munsun Smart")	6	Beneficial Owner	109,853,894	11.84%

REPORT OF THE DIRECTORS

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

Notes:

1. Tuspark Venture is the beneficial owner of 212,490,802 shares. The entire issued share capital of Tuspark Venture is beneficially owned by Tus-Holdings. Tus-Holdings is therefore deemed to be interested in the 212,490,802 shares held by Tuspark Venture pursuant to the SFO.
2. Tus-Holdings is held (i) as to approximately 44.92% by Tsinghua Holdings, which is in turn held as to 100% by Tsinghua University; and (ii) as to approximately 30.08% by Beijing Baijun, which is in turn held as to 100% by Mr. Wang Jiwu.
3. Tuspark Venture is beneficially interested in the convertible bond in the principal amount of HK\$100,000,000 which is convertible into a maximum of 109,853,894 shares at the initial conversion price of HK\$0.9103 per share.
4. Ideal Team and Lucky Target is beneficially interested in the convertible bond in the principal amount of HK\$38,000,000 and HK\$23,000,000, respectively, which is convertible into a maximum of 69,004,524 shares at the initial conversion price of HK\$0.884 per share.
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 928,184,888 shares in issue as at 31 December 2017.

Short positions in shares of the Company

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

Short positions in underlying shares of the Company

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

Save as disclosed above, as at 31 December 2017, 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.

REPORT OF THE DIRECTORS

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2017, no contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had material interest, whether directly or indirectly, subsisted at the end of the period or any time during the year ended 31 December 2017.

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 SHARES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

AUDITORS

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

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

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

On behalf of the Board

Ma Chi Kong Karl

Chairman

Hong Kong, 26 March 2018

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 2017.

Code Provision A.2.1

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 2017.

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 12 Directors, including 5 executive Directors, 3 non-executive Directors and 4 independent non-executive Directors, in compliance with the requirement of Listing Rules which states that “every board of directors of an issuer must include at least 3 independent non-executive directors which represent at least one-third of the board”.

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

Ms. Cheung Joanna Wai Sze

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (*CONTINUED*)

Non-executive Directors

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

Mr. Tsang Ling Biu, Gilbert

Mr. Qin Zhiguang (Appointed on 27 March 2018)

Mr. Sheng Ruzhi (Resigned on 31 August 2017)

Independent non-executive Directors

Hon. Quat Elizabeth (*JP*) (Appointed on 6 January 2017)

Mr. Chen Jin

Mr. Poon Chiu Kwok

Mr. Wong Yuk Lun, Alan

Hon. Shek Lai Him Abraham (*GBS, JP*) (Resigned on 6 January 2017)

Brief biographies of each of the Directors are set out on pages 16 to 21 of this report and also made available on the Company's website.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realising the strategies and goals of the Group;
- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to interim and annual reports of the Company, announcements published according to the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;
- 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.

CORPORATE GOVERNANCE REPORT

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 2017 and up to the publication of this report, the Company has appointed four independent non-executive Directors, namely Hon. Elizabeth Quat (*JP*), Mr. Chen Jin, Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan.

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

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

Directors' and Officers' Insurance

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

CORPORATE GOVERNANCE 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 2017. The Directors are given sufficient time to review documents and information relating to matters to be discussed in board meetings in advance.

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (CONTINUED)

Attendance of Meeting(s) (Continued)

Details of Directors' attendance at board meetings, committee meetings and general meetings held in 2017 are set out as follows:

	Attendance				
	General Meetings	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Ma Chi Kong Karl (<i>Chairman</i>)	2/4	10/11	N/A	1/2	2/2
Mr. Shen Xiao	4/4	10/11	N/A	N/A	2/2
Mr. Du Peng	3/4	9/11	N/A	N/A	N/A
Mr. Woo Kar Tung Raymond	4/4	11/11	N/A	N/A	N/A
Ms. Cheung Joanna Wai Sze	3/4	10/11	N/A	N/A	N/A
Non-executive Directors					
Mr. Yang Ming (Redesignated from an executive Director to a non-executive Director on 29 January 2018)	2/4	7/11	3/3	2/2	N/A
Mr. Tsang Ling Biu, Gilbert	4/4	9/11	3/3	N/A	N/A
Mr. Qin Zhiguang (Appointed on 27 March 2018)	N/A	N/A	N/A	N/A	N/A
Mr. Sheng Ruzhi (Resigned on 31 August 2017)	2/3	3/8	N/A	N/A	N/A
Independent non-executive Directors					
Hon. Quat Elizabeth (<i>JP</i>) (Appointed on 6 January 2017)	2/4	7/11	N/A	N/A	N/A
Mr. Chen Jin	2/4	6/11	3/3	2/2	2/2
Mr. Poon Chiu Kwok	4/4	10/11	3/3	2/2	2/2
Mr. Wong Yuk Lun, Alan	2/4	9/11	3/3	2/2	2/2
Hon. Shek Lai Him Abraham (<i>GBS, JP</i>) (Resigned on 6 January 2017)	N/A	N/A	N/A	2/2	2/2

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 (<i>Chairman</i>)	B
Mr. Shen Xiao	B
Mr. Du Peng	A,B
Mr. Woo Kar Tung Raymond	A,B
Ms. Cheung Joanna Wai Sze	B
Non-executive Directors	
Mr. Yang Ming (Redesignated from an executive Director to a non-executive Director on 29 January 2018)	B
Mr. Tsang Ling Biu, Gilbert	A,B
Mr. Qin Zhiguang (Appointed on 27 March 2018)	N/A
Mr. Sheng Ruzhi (Resigned on 31 August 2017)	B
Independent non-executive Directors	
Hon. Quat Elizabeth (<i>JP</i>) (Appointed on 6 January 2017)	B
Mr. Chen Jin	A,B
Mr. Poon Chiu Kwok	A,B
Mr. Wong Yuk Lun, Alan	B
Hon. Shek Lai Him Abraham (<i>GBS, JP</i>) (Resigned on 6 January 2017)	A,B

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

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

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 reviewed this report and confirmed that it complies with the applicable standards, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made. There is no disagreement between the Directors of the Audit Committee regarding the selection and appointment of external auditors.

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

Mr. Poon Chiu Kwok (*Chairman of Audit Committee*)

Mr. Tsang Ling Biu, Gilbert

Hon. Quat Elizabeth (*JP*)

Mr. Chen Jin

Mr. Wong Yuk Lun, Alan

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

During the year under review, the Audit Committee held three 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 four independent non-executive Directors:

Mr. Poon Chiu Kwok (*Chairman of Remuneration Committee*)

Mr. Ma Chi Kong Karl

Hon. Quat Elizabeth (*JP*)

Mr. Chen Jin

Mr. Wong Yuk Lun, Alan

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (*CONTINUED*)

The changes in the composition of the Remuneration Committee for the year ended 31 December 2017, and from the beginning of 2018 to the publication of this report are set out below:

- On 6 January 2017, Hon. Quat Elizabeth (JP) has been appointed as a member of the Remuneration Committee; and
- On 29 January 2018, Mr. Yang Ming has resigned from 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	5
HK\$1,000,001 – HK\$1,500,000	0
HK\$1,500,001 – HK\$2,000,000	1

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

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 Nomination Committee concerns the diversity of Board composition which aims to maintain the Board with a diversity of Directors in terms of skills, experience, knowledge, expertise, culture, independence, age, gender, and other qualities of the members of the Board with a view to enhancing the quality of performance of the Board. The primary duties of the Nomination Committee are to assist the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. Hon. Elizabeth Quat (JP) has been appointed as independent non-executive Director on 6 January 2017 and this arrangement further increases gender diversity of the Board.

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

Mr. Ma Chi Kong Karl (*Chairman of the Nomination Committee*)

Mr. Shen Xiao

Hon. Quat Elizabeth (JP)

Mr. Poon Chiu Kwok

Mr. Chen Jin

Mr. Wong Yuk Lun, Alan

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

During the year under review, the Nomination Committee held 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

Mr. So Yiu Fung, the company secretary of the Company, has confirmed the completion of relevant professional training of not less than 15 hours.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING

Directors' Responsibility for Financial Reporting

With the assistance of the finance department of the Company, the Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2017 and confirm that the financial statements contained herein give a true and fair view of the results and state of affairs of the Group for the year under review. The Directors consider that the financial statements have been prepared in conformity with the statutory requirements including the Hong Kong Companies Ordinances and the Listing Rules and the applicable accounting standards including the International Financial Reporting Standards, Hong Kong Financial Reporting Standards. These statutory requirements and applicable accounting standards have been consistently used and applied and reasonable judgements and estimates are properly made. The Board aims to present a clear and balanced assessments of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. During the year of 2017, the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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

External Auditors' Remuneration

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

Type of services provided	Amount of fees (HK\$)
Audit services	900,000
Non-audit services	898,668
Total	1,798,668

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (*CONTINUED*)

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

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS AND SHAREHOLDERS’ RIGHTS

Communications with Shareholders and Investors

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

Communications with Shareholders and Investors (*Continued*)

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

Constitutional Documents

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

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

Enquires to the Board

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this report in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) contained in Appendix 27 and the requirements set out in Rule 13.91 of the Listing Rules. The report describes the Company’s policies that were designed to fulfill the Company’s obligations with respect to sustainable development and social responsibilities areas, as required by the ESG Guide. This report covers the operational information, which includes data and activities of the Group’s head offices in Hong Kong and the PRC, and its reporting period is for the financial year 2017. In respect of the corporate governance practices of the Company, please refer to the “Corporate Governance Report” section of this annual report.

A. ENVIRONMENTAL PROTECTION

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

A.1 Emissions

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

A.2 Use of Resources

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

Energy Management

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL PROTECTION (*CONTINUED*)

A.2 Use of Resources (*Continued*)

Paper Reduction

We adopt measures to save paper, such as 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 cup for our guests. By implementing these measures, the office decreased the waste generation in operation, and we promote the culture of green living, and cultivate the public awareness on environmental protection.

A.3 Environment and Natural Resources

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

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. The relevant data during the reporting period is as follows:

	Unit
Usage of Resource	
Total electric power consumption	167,666 Kwh
Total fuel consumption (vehicle)	8,320 Liter
Total consumption of water	573 Tons

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL PROTECTION (*CONTINUED*)

A.3 Environment and Natural Resources (*Continued*)

	Unit
Emissions of Air Pollutant by Vehicles	
Emission of CO ₂	132,456 Kg
Emission of NO _x	19,348 Kg
Emission of SO _x	122 Kg
Emission of PM	1,425 Kg
Greenhouse Gas Emission (Scope 1, 2 and 3)	
Emission by vehicles (Scope 1)	19,647 Tons
Emission by energy consumption (Scope 2)	132,456 Tons
Emission by commercial business travel by airplanes and train (Scope 3)	146,703 Tons
Total emission of greenhouse gas	298,806 Tons
Discharge Volume of Non-hazardous Waste	
Packaging material used	3 Tons

As this ESG Report is the Group's first disclosure of data on the use of resources and emissions including electricity consumption, water consumption, discharges of non-hazardous solid waste, the Group will conduct year to year comparison for the data in the coming year to quantify the Group's achievements in terms of measures on resources conservation and emission reduction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT

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

B.1 Employment and Labour Practices

The Group creates a harmonious working environment and provides a diversified career development platform for employees, in order to achieve the common growth of enterprises and employees. The Group strictly complies with national and local labor laws and regulations, such as the Employment Ordinance of 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 Company also maintains a holiday policy, which provides employees paid days off from work for national public holidays and company holidays, as well as annual vacation leave, compassionate leave, marriage leave, maternity leave, personal leave and sick leave. To achieve sustainable growth with our staff, we implement the policy of promotion from within whenever possible on recruitment and promotion. We prefer to recognise and develop the abilities of our staff within the Group rather than fill skilled and responsible positions from outside.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT

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

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT (*CONTINUED*)

B.3 Development and Training

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

We ensure our staff have proper channels to communicate with our management through annual performance review on their strengths and needs. Each staff will set up a short-term development target for the coming year according to their interest and potential. We encourage our staff to share their knowledge to the colleague by 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. Applicant is also required to provide document proofs of academic qualifications and working experience for verifications, applicant who is suspected to have false academic qualifications and working experience will not be employed. The Group provides its staff with a safe, health, comfortable working environment with labor protection, reasonable remuneration and various welfare. The Group enters employment contract with each of its employees in accordance with relevant laws and regulations in the PRC and Hong Kong, and has strictly complied with such laws relating to preventing child and forced labour.

B.5 Supply Chain Management

The Group values the partnership with suppliers and works together to promote sustainable development of the industry. 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL COMMITMENT (*CONTINUED*)

B.6 Product Responsibility

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

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

As at the year ended 31 December 2017, 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.

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

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

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 2017, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

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



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 Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of TUS International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 161, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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.

INDEPENDENT AUDITORS' REPORT

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\$40,625,172 as at 31 December 2017. Management performed impairment assessment of intangible assets and concluded that an impairment loss of HK\$3,581,132 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
Impairment assessment on available-for-sale investments	
Refer to note 25 to the consolidated financial statements.	
<p>The Group has unlisted available-for-sale investments which are carried at cost less impairment of HK\$357,595,055 represented approximately 28.8% of the Group's total assets and was significant to the Group's assets as at 31 December 2017. During the year, the management concluded that no impairment was recognised on the available-for-sale investments. This conclusion requires significant management judgement.</p>	<p>Our procedures in relation to the management's impairment assessment on available-for-sale investments included:</p> <ul style="list-style-type: none"> Assessing the appropriateness of the methodologies used by management for the impairment assessment; Discussing with management whether there was any objective evidence of impairment of each investment and challenging management's assertions and assessment; and Reviewing the latest financial information and business performance of each investment. <p>We consider the management conclusion to be consistent with the available information.</p>

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 2017.	Our procedures in relation to the management's impairment assessment on goodwill included:
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.	<ul style="list-style-type: none"> 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.
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.	We consider the management conclusion to be consistent with the available information.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITORS' REPORT

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

The directors of the Company are responsible for the preparation of 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' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITORS' REPORT

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

- Conclude on the appropriateness of 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, 26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*For the year ended 31 December 2017*

	Note	2017 HK\$	2016 HK\$
Revenue	7	202,692,616	216,801,681
Cost of sales		(175,975,718)	(197,239,387)
Gross profit		26,716,898	19,562,294
Other revenue	8	4,236,208	1,126,751
Other gains and losses	9	(5,179,727)	(16,906,428)
Research and development expenses	10	(5,120,836)	(2,193,905)
Selling and distribution expenses		(2,779,068)	(1,396,235)
Administrative expenses		(70,531,625)	(63,238,254)
Finance costs	11	(23,823,916)	(4,513,307)
Gain on disposal of subsidiaries		–	26,996,996
Gain on disposal of available-for-sale investments		–	200,000
Share of loss of an associate	23	(3,429,909)	–
Share of loss of a joint venture	24	(934,076)	–
Loss before taxation	12	(80,846,051)	(40,362,088)
Taxation	13	10,322,568	2,564,082
Loss for the year		(70,523,483)	(37,798,006)
Other comprehensive profit/(loss) for the year, net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		4,654,130	(714,973)
Reclassification adjustment of exchange differences upon disposal of subsidiaries		–	(11,582,867)
Share of exchange differences of an investment in associates	23	38,670	–
Share of exchange differences of an investment in a joint venture	24	4,619	–
Other comprehensive profit/(loss) for the year		4,697,419	(12,297,840)
Total comprehensive loss for the year		(65,826,064)	(50,095,846)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*For the year ended 31 December 2017*

	Note	2017 HK\$	2016 HK\$
(Loss)/profit for the year attributable to:			
Owners of the Company		(75,283,337)	(30,608,215)
Non-controlling interests		4,759,854	(7,189,791)
		(70,523,483)	(37,798,006)
Total comprehensive (loss)/profit for the year attributable to:			
Owners of the Company		(73,917,018)	(42,701,694)
Non-controlling interests		8,090,954	(7,394,152)
		(65,826,064)	(50,095,846)
Loss per share			
– Basic and diluted (HK cents)	17	(8.11)	(3.30)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 HK\$	2016 HK\$
Non-current assets			
Fixed assets			
– Property, plant and equipment	18	20,654,257	4,836,259
Construction in progress	19	2,635,365	–
Deposit	27	48,029,760	–
Finance lease receivables	28	58,062,691	29,671,130
Intangible assets	20	40,625,172	3,855,099
Goodwill	21	164,772,765	3,380,099
Interests in associates	23	6,608,761	10,000,000
Interests in a joint venture	24	611,044	–
Available-for-sale investments	25	357,595,055	209,000,000
		699,594,870	260,742,587
Current assets			
Inventories	26	83,653,878	18,102,688
Trade and bills receivables, prepayments and other receivables	27	238,025,633	115,566,761
Finance lease receivables	28	95,150,945	35,648,588
Pledged bank deposits	29	63,177,893	–
Cash and cash equivalents	29	63,446,857	143,781,827
		543,455,206	313,099,864
Current liabilities			
Trade and bills payables and other payables	30	286,049,209	25,653,619
Current tax payable	31	1,268,036	801,035
Borrowings	32	83,983,628	9,667,984
		371,300,873	36,122,638
Net current assets		172,154,333	276,977,226
Total assets less current liabilities		871,749,203	537,719,813

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 31 December 2017*

	Note	2017 HK\$	2016 HK\$
Non-current liabilities			
Deferred tax liabilities	31	4,396,883	11,202,942
Convertible bonds	33	334,352,226	46,132,190
		338,749,109	57,335,132
Net assets		533,000,094	480,384,681
Capital and reserves			
Share capital	36	9,281,849	9,281,849
Reserves	36	478,837,851	517,662,384
Equity attributable to owners of the Company		488,119,700	526,944,233
Non-controlling interests		44,880,394	(46,559,552)
Total equity		533,000,094	480,384,681

Approved and authorised for issue by the Board of Directors on 26 March 2018

Ma Chi Kong Karl
Chairman

Woo Kar Tung Raymond
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										Non-controlling interests HK\$	Total HK\$
	Share capital HK\$	Share premium HK\$	Statutory surplus reserve HK\$	Exchange reserve HK\$	Other reserve HK\$	Share option reserve HK\$	Convertible bonds reserves HK\$	Warrants reserve HK\$	Retained profits HK\$	Sub-total HK\$		
As at 1 January 2016	9,281,849	477,037,709	7,893,657	17,005,189	(46,580,259)	16,173,403	-	-	60,177,637	540,989,185	(23,362,058)	517,627,127
Loss for the year	-	-	-	-	-	-	-	-	(30,608,215)	(30,608,215)	(7,189,791)	(37,798,006)
Other comprehensive loss for the year, net of income tax:												
Exchange differences on translation of financial statements of foreign operation	-	-	-	(510,612)	-	-	-	-	-	(510,612)	(204,361)	(714,973)
Reclassification adjustment of exchange differences upon disposal of subsidiaries	-	-	-	(11,582,867)	-	-	-	-	-	(11,582,867)	-	(11,582,867)
Total comprehensive loss for the year	-	-	-	(12,093,479)	-	-	-	-	(30,608,215)	(42,701,694)	(7,394,152)	(50,095,846)
Cancellation of share option	-	-	-	-	-	(16,173,403)	-	-	16,173,403	-	-	-
Disposal of subsidiaries (note 38)	-	-	(5,703,096)	-	(2,408,154)	-	-	-	8,111,250	-	(15,803,342)	(15,803,342)
Issue of convertible bond (note 33)	-	-	-	-	-	-	18,043,301	-	-	18,043,301	-	18,043,301
Deferred taxation of convertible bond (note 31(b))	-	-	-	-	-	-	(2,977,144)	-	-	(2,977,144)	-	(2,977,144)
Share-based payments	-	-	-	-	-	13,590,585	-	-	-	13,590,585	-	13,590,585
As at 31 December 2016 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 operation	-	-	-	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	-	-	-	-	-	-	(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

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2017*

	Note	2017 HK\$	2016 HK\$
Operating activities			
Loss before taxation		(80,846,051)	(40,362,088)
Adjustments for:			
– Depreciation of property, plant and equipment	18	6,080,823	1,900,941
– Amortisation of intangible assets	20	1,913,343	2,193,905
– Amortisation of leasehold land held for own use under operating leases		–	51,776
– Finance costs	11	23,823,916	4,513,307
– Bank interest income	8	(2,274,242)	(290,246)
– Share of loss of an associate	23	3,429,909	–
– Share of loss of a joint venture	24	934,076	–
– Loss on disposal of property, plant and equipment	9	2,232,235	–
– Gain on disposal of subsidiaries		–	(26,996,996)
– Impairment loss recognised on other receivables		–	4,047,749
– Impairment loss recognised on finance lease receivables	9	1,857,439	–
– Impairment loss recognised on intangible assets	20	3,581,132	12,956,676
– Impairment loss recognised on amount due from an associate	23	–	6,006
– Share-based payments		10,161,284	13,590,585
– Gain on disposal of available-for-sale investments		–	(200,000)
Operating loss before changes in working capital		(29,106,136)	(28,588,385)
Increase in inventories		(7,239,833)	(26,115,858)
(Increase)/decrease in trade and bills receivables, prepayments and other receivables		(15,464,062)	11,251,925
Increase in finance lease receivables		(89,751,357)	(42,436,035)
Increase in trade and bills payables and other payables		54,144,646	35,163,705
Cash used in operations		(87,416,742)	(50,724,648)
Income tax paid	31	(505,750)	(3,805,013)
Net cash used in operating activities		(87,922,492)	(54,529,661)
Investing activities			
Purchase of property, plant and equipment	18	(11,514,273)	(4,592,440)
Payment for construction in progress	19	(2,158,083)	(1,234,568)
Purchase of intangible assets	20	(42,026,040)	–
Net cash inflow on disposal of subsidiaries	38	–	9,976,873
Bank interest received	8	2,274,242	290,246
Purchase of available-for-sale investments		(78,160,209)	(20,000,000)
Investment in a joint venture	24	(1,540,501)	–
Net cash outflow on acquisition of subsidiaries	37	(131,807,286)	–
Placement of pledged bank deposits		(63,177,893)	–
Net cash used in investing activities		(328,110,043)	(15,559,889)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 HK\$	2016 HK\$
Financing activities			
Proceeds from bank loans		10,566,547	–
Repayment of bank loans		(14,168,779)	(16,829,268)
Proceeds from other loans		10,168,052	6,604,520
Repayment of other loans		(10,298,536)	(14,436,536)
Finance costs paid		(11,925,512)	(1,337,816)
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/(used in) financing activities		329,910,937	(25,999,100)
Net decrease in cash and cash equivalents		(86,121,598)	(96,088,650)
Effect of foreign exchange rate changes		5,786,628	(230,002)
Cash and cash equivalents as at 1 January		143,781,827	240,100,479
Cash and cash equivalents as at 31 December		63,446,857	143,781,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on or after 1 January 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of these amendments has had no impact on the Group's consolidated financial statements.

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

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ³
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 28	Investments in Associates and Joint Ventures ²
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹

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

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined. Early adoption is permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKAS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

HKFRS 9 Financial Instruments (Continued)

Classification and measurement

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

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

Impairment

In general, the directors of the Company also anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. However, the directors of the Company do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact to the opening accumulated losses at 1st January 2018.

HKFRS 15 Revenue from Contracts with Customers

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

HKFRS 15 Revenue from Contracts with Customers (Continued)

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

Based on current business of Company, the Directors do not anticipate that the application of HKFRS 15 will have material impact on the amounts reported and disclosures made in the Group's financial statements in the future. There will be additional disclosures upon the adoption of HKFRS 15.

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

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

HKFRS 16 Leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

HKFRS 16 Leases (Continued)

Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of the Group's lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments to these financial statements.

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019. As disclosed in note 40 to the consolidated financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of HK\$6,901,147. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's result, but it is expected that certain portion of the lease commitments will be regarded to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

The Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the other new and revised HKFRSs, will have a significant impact on the Group's financial performance and position.

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 transaction that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

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

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

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

The principal accounting policies are set out below.

(c) Basis of consolidation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(c) **Basis of consolidation** (*Continued*)

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation (Continued)

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the 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.

(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 2017

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 may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

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

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

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 2017

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.

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

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

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

(f) Investment in associates 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 sales, in which case it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The financial statements of associates 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. 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 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

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

An investment in an associate and joint ventures are accounted for using the equity method from the date on which the investee becomes an associate and joint ventures. On acquisition of the investment in an associate and joint ventures, 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 and joint ventures of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate and joint ventures that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 provided 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 methods. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accumulated for on a prospective basis.

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

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

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| – Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion. | |
| – 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 2017

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 periods, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any impairment losses.

Internally-generated intangible asset – research and development expenditure

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during the development.

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

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

Intangible assets acquired in a business combination

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 cash generating units 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 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 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(k) Leasing

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

The Group as lessor

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

The Group as lessee

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

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

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

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

Leasehold land for own use

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(k) Leasing (*Continued*)

Leasehold land for own use (Continued)

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

(l) Inventories

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

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

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

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

(m) Trade 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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 2017

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 2017

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 the Group becomes a party to the contractual provisions of the instruments.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(w) Financial instruments (*Continued*)

Financial assets (Continued)

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".

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(w) Financial instruments (*Continued*)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

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.

Impairment of financial assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(w) Financial instruments (*Continued*)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(w) Financial instruments (*Continued*)

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at FVTPL

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Financial instruments (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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(w) Financial instruments (*Continued*)

Derecognition

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

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

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

(x) Revenue recognition

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

(i) *Sale of goods*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(x) Revenue recognition (*Continued*)

(ii) *Government grants*

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

(iii) *Interest income*

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

(iv) *Finance lease income*

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

(v) *Dividend income*

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

(y) Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2017

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 2017

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

(aa) Related parties transactions (*Continued*)

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

- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of the person or that person's spouse or domestic partner.

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

(ab) Segment reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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) Allowance for impairment of doubtful debts

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. ACCOUNTING ESTIMATES AND JUDGMENTS (*CONTINUED*)

(e) Income taxes and deferred taxation

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

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

(f) Estimated impairment of goodwill

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

(g) Impairment losses of associate

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

(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 36.61% 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 36.61% of the voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial risk management objectives and policies

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

Categories of financial instruments

	2017 HK\$	2016 HK\$
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	355,956,103	234,102,142
Available-for-sale investments	357,595,055	209,000,000
Finance lease receivables	153,213,636	65,319,718
	866,764,794	508,421,860
Financial liabilities		
Amortised costs	704,385,063	81,453,793

Financial risk factors

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(a) Credit risk

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

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

At the end of the reporting period, the Group has a certain level of concentrations of credit risk as 31.8% (2016: 0%) and 91.9% (2016: 0%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables, bills receivables and finance lease receivables are set out in notes 27 and 28 to the consolidated financial statements respectively.

(b) Liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(b) Liquidity risk (Continued)

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 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

As at 31 December 2016

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (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\$353,214 (2016: HK\$48,340). 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 2017

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (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).

During the years ended 31 December 2017 and 2016, there were no transfers of fair value measurement between Level 1 and Level 2, and there were no transfers into or out of Level 3 for both financial assets and financial liabilities. There were no transfers between Level 1 and Level 2 in both years.

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

	As at 31 December 2017	
	Carrying amount HK\$	Fair value HK\$
Financial liabilities		
Convertible bonds	334,352,226	339,383,095

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 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 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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2016					
Segment revenue	17,489,272	–	109,070,296	90,242,113	216,801,681
Segment results	4,632,750	–	4,875,476	4,020,875	13,529,101
Impairment loss recognised on amount due from an associate	(6,006)	–	–	–	(6,006)
Impairment loss recognised on other receivables	–	–	–	(4,047,749)	(4,047,749)
Impairment loss recognised on intangible assets	(12,956,676)	–	–	–	(12,956,676)
Gain on disposal of subsidiaries	26,996,996	–	–	–	26,996,996
Unallocated corporate expense					(60,302,990)
Unallocated corporate income					938,543
Finance costs					(4,513,307)
Loss before taxation					(40,362,088)

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 other receivables, impairment loss recognised on finance lease receivables, impairment loss recognised on intangible assets, gain on disposal of subsidiaries and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's assets and liabilities 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 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
	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 2016					
Segment assets	14,841,053	–	7,320,333	69,885,302	92,046,688
Segment liabilities	17,897,203	–	2,092,139	76,327	20,065,669

Reconciliation of reportable segments' assets and liabilities:

	2017 HK\$	2016 HK\$
Assets		
Total assets of reportable segments	659,348,301	92,046,688
Unallocated and other corporate assets:		
Prepayments and other receivables	88,070,908	115,403,174
Available-for-sale investments	357,595,055	209,000,000
Cash and cash equivalents	126,624,750	143,781,827
Office equipment and motor vehicles	4,191,257	3,610,762
Interests in associates	6,608,761	10,000,000
Interests in a joint venture	611,044	–
Consolidated total assets	1,243,050,076	573,842,451
Liabilities		
Total liabilities of reportable segments	258,542,686	20,065,669
Unallocated and other corporate liabilities:		
Other payables	101,952,651	14,337,704
Borrowings	9,537,500	9,667,984
Convertible bonds	334,352,226	46,132,190
Deferred tax liabilities	4,396,883	2,453,188
Current tax payable	1,268,036	801,035
Consolidated total liabilities	710,049,982	93,457,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (CONTINUED)

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

- all assets are allocated to operating segments other than available-for-sale investments and other unallocated corporate assets (mainly comprising prepayments and other receivables, cash and cash equivalents, office equipment and motor vehicles, 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 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)
Year ended 31 December 2016						
Capital expenditure	4,650,165	–	–	1,121,214	55,629	5,827,008
Depreciation and amortisation	3,456,985	–	–	112,076	577,561	4,146,622
Taxation	(3,151,752)	–	747,879	249,564	(409,773)	(2,564,082)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT INFORMATION (CONTINUED)

Information about geographical areas

During the year, the Group was mainly operating in the PRC (2016: Hong Kong and the PRC). The Group's revenue from external customers based on the location of the operation and information about its non-current assets by geographical location are presented below:

	ADAS and other automotive components		Car-carried purifiers		Car trading		Finance lease of motor vehicles and equipment		Total	
	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Revenue										
Hong Kong	-	-	-	-	-	55,000,000	-	-	-	55,000,000
The PRC	26,938,353	17,489,272	5,927,825	-	54,522,615	54,070,296	115,303,823	90,242,113	202,692,616	161,801,681
Non-current assets										
Hong Kong	-	-	-	-	-	-	-	-	-	-
The PRC	177,022,990	4,058,698	88,654,932	-	-	-	64,910,831	34,073,127	330,588,753	38,131,825

Information about major customers

For the year ended 31 December 2017, revenue generated from one (2016: three) customer(s) of the Group amounting to HK\$31,021,944 (2016: HK\$116,595,572) 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:

	2017 HK\$	2016 HK\$
Customer A (note)	-	55,000,000
Customer B	31,021,944	32,898,887
Customer C (note)	-	28,696,685

Note:

No information on revenue for the current year is disclosed for these customers since it contributed less than 10% to the Group's revenue for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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:

	2017 HK\$	2016 HK\$
Sales of ADAS and other automotive components	26,938,353	17,489,272
Sales of car-carried purifiers	5,927,825	–
Sales of cars	54,522,615	109,070,296
Finance lease income	115,303,823	90,242,113
	202,692,616	216,801,681

8. OTHER REVENUE

	2017 HK\$	2016 HK\$
Bank interest income	2,274,242	290,246
Subsidy income (note)	14,816	198,280
Sundry income	1,947,150	183,924
Consultancy fee income	–	454,301
	4,236,208	1,126,751

Note:

For the years ended 31 December 2017 and 2016, 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 2017

9. OTHER GAINS AND LOSSES

	2017 HK\$	2016 HK\$
Net foreign exchange gain	(2,491,079)	(104,003)
Loss on disposal of property, plant and equipment	2,232,235	–
Impairment loss recognised on amount due from an associate	–	6,006
Impairment loss recognised on other receivables	–	4,047,749
Impairment loss recognised on finance lease receivables	1,857,439	–
Impairment loss recognised on intangible assets	3,581,132	12,956,676
	5,179,727	16,906,428

10. RESEARCH AND DEVELOPMENT EXPENSES

	2017 HK\$	2016 HK\$
Research and development expenses incurred	5,120,836	2,193,905

11. FINANCE COSTS

	2017 HK\$	2016 HK\$
Interest expenses on bank loans	649,406	776,634
Interest expenses on other loans	1,166,518	561,182
Imputed interest expenses on convertible bonds	22,007,992	3,175,491
	23,823,916	4,513,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. LOSS BEFORE TAXATION

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

	2017 HK\$	2016 HK\$
Auditor's remuneration		
– Audit service	900,000	900,000
– Non-audit service	898,668	–
Staff costs (including directors' emolument)		
– Salaries, wages and bonuses	33,181,176	22,490,818
– Retirement scheme contributions and welfare	1,390,238	645,455
– Share-based payments	10,161,284	13,590,585
Depreciation of property, plant and equipment (note 18)	6,080,823	1,900,941
Amortisation of leasehold land held for own use under operating leases	–	51,776
Amortisation of intangible assets (note 20)	1,913,343	2,193,905
Operating lease charges in respect of rented properties	4,153,927	3,750,753
Cost of inventories	76,493,775	144,459,431
Gain on disposal of subsidiaries	–	(26,996,996)
Gain on disposal of available-for-sale investments	–	(200,000)

13. TAXATION

(a) Income tax recognised in profit or loss:

	2017 HK\$	2016 HK\$
Current tax:		
PRC Enterprise Income Tax	972,751	611,218
Hong Kong Profits Tax	–	862,062
Deferred tax:		
Current year credit (note 31(b))	(11,295,319)	(4,037,362)
Total income tax credited to profit or loss	(10,322,568)	(2,564,082)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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	2017	2016
Troitec Automotive Electronics Co., Ltd ("Troitec")	(i)	25%	25%
Shanghai Nanlang Finance Lease Limited ("Shanghai Nanlang")	(i)	25%	25%
Hunan Delu Car Trading Limited ("Hunan Delu")	(i)	25%	25%
Shanxi Avichina Jinheng Technology Limited ("Shanxi Jinheng")	(ii) and (iii)	N/A	15%
Suzhou Yadu Cloud Technology Co., Limited ("Yadu Cloud")	(i)	25%	25%
Suzhou Zhihua Automobile Electronic Co., Ltd ("Suzhou Zhihua")	(ii) and (iv)	15%	N/A
Beijing Yinwo Automobile Technology Company Limited ("Beijing Yinwo")	(i) and (iv)	25%	N/A
Qidi Zhixing Technology (Beijing) Limited ("Qidi Zhixing")	(i) and (iv)	25%	N/A
TUS Yunzhi Technology (Beijing) Limited ("TUS Yunzhi")	(i) and (iv)	25%	N/A
TUS Cloud Control (Beijing) Technology Limited ("TUS Cloud Control")	(i) and (iv)	25%	N/A

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) Shanxi Jinheng and Suzhou Zhihua are "encouraged hi-tech enterprise" and entitled to reduce the tax rate to 15%.
- (iii) The company was disposed during the year ended 31 December 2016.
- (iv) These companies were incorporated or acquired during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. TAXATION (CONTINUED)

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

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2017 (2016: 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 2017.

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

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

	2017 HK\$	2016 HK\$
Loss before taxation	(80,846,051)	(40,362,088)
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	(13,766,178)	(8,421,657)
Tax effect of non-deductible expenses	7,151,725	4,018,726
Tax effect of non-taxable revenue	(797,587)	(4,535,829)
Tax effect of tax concessions	–	(144,613)
Tax effect of unrecognised temporary differences and tax losses	(2,880,528)	6,456,753
Under-provision in prior year	–	102,538
Tax reduction	(30,000)	(40,000)
Taxation	(10,322,568)	(2,564,082)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 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. Shen Xiao	–	3,000,000	–	18,000	3,018,000	3,083,125	6,101,125
Mr. Yang Ming (note (ii))	–	2,400,000	–	18,000	2,418,000	3,083,125	5,501,125
Mr. Du Peng	–	1,200,000	–	18,000	1,218,000	156,548	1,374,548
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 (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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. DIRECTORS' REMUNERATION (CONTINUED)

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

Year ended 31 December 2016

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

Notes:

- (i) During the year ended 31 December 2017 and 2016, the executive director of the Company, Mr. Ma Chi Kong Karl, was also the Chairman of the Group (Mr. Li Feng, the former chairman and executive director of the Company retired upon conclusion of the AGM on 20 June 2016).
- (ii) On 29 January 2018, Mr. Yang Ming has been redesignated from an executive director to a non-executive director.

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15. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group, included four (2016: five) directors whose emoluments are disclosed in note 14. The detail of the emoluments in respect of the remaining one (2016: Nil) individual who is neither a director nor chief executive of the Company for the years ended 31 December 2017 and 2016 are as follows:

	2017 HK\$	2016 HK\$
Salaries and other emoluments	1,805,231	–
Retirement scheme contributions	18,000	–
	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:

	2017 Number of individuals	2016 Number of individuals
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 2017 (2016: HK\$ Nil).

17. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of HK\$75,283,337 (2016: HK\$30,608,215) and the weighted average of 928,184,888 (2016: 928,184,888) ordinary shares in issue during the year.

(b) Diluted loss per share

For the years ended 31 December 2017 and 2016, 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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For the year ended 31 December 2017

18. FIXED ASSETS

	Buildings held for own use HK\$	Leasehold improvements HK\$	Machinery and equipment HK\$	Motor vehicles HK\$	Office equipment HK\$	Sub-total HK\$	Interests in leasehold land held for own use under operating leases HK\$	Total HK\$
Cost:								
As at 1 January 2016	20,596,986	–	9,870,820	7,375,187	8,176,039	46,019,032	18,413,919	64,432,951
Additions	–	–	3,337,857	–	1,254,583	4,592,440	–	4,592,440
Disposal of subsidiaries (note 38)	(20,517,048)	–	(11,463,280)	(207,959)	(6,361,879)	(38,550,166)	(17,881,115)	(56,431,281)
Exchange alignment	(79,938)	–	(535,779)	(2,611,210)	(410,299)	(3,637,226)	(532,804)	(4,170,030)
As at 31 December 2016 and 1 January 2017	–	–	1,209,618	4,556,018	2,658,444	8,424,080	–	8,424,080
Additions	–	2,244,712	6,255,475	821,597	2,192,489	11,514,273	–	11,514,273
Acquisition of subsidiaries (note 37)	–	506,518	9,602,057	–	2,067,317	12,175,892	–	12,175,892
Disposal	–	–	(37,564)	(1,884,953)	(1,697,233)	(3,619,750)	–	(3,619,750)
Exchange alignment	–	8,425	296,988	128,354	218,110	651,877	–	651,877
As at 31 December 2017	–	2,759,655	17,326,574	3,621,016	5,439,127	29,146,372	–	29,146,372
Accumulated depreciation:								
As at 1 January 2016	7,278,750	–	2,568,610	741,110	4,257,577	14,846,047	8,748,577	23,594,624
Disposal of subsidiaries (note 38)	(7,433,441)	–	(2,868,180)	(187,163)	(2,188,584)	(12,677,368)	(8,240,001)	(20,917,369)
Charge for the year	280,999	–	923,267	295,889	400,786	1,900,941	51,776	1,952,717
Exchange alignment	(126,308)	–	(89,163)	(208,900)	(57,428)	(481,799)	(560,352)	(1,042,151)
As at 31 December 2016 and 1 January 2017	–	–	534,534	640,936	2,412,351	3,587,821	–	3,587,821
Charge for the year	–	489,338	4,037,706	828,917	724,862	6,080,823	–	6,080,823
Written back on disposal	–	–	(17,287)	(343,675)	(1,026,553)	(1,387,515)	–	(1,387,515)
Exchange alignment	–	578	91,531	28,399	90,478	210,986	–	210,986
As at 31 December 2017	–	489,916	4,646,484	1,154,577	2,201,138	8,492,115	–	8,492,115
Carrying out amounts:								
As at 31 December 2017	–	2,269,739	12,680,090	2,466,439	3,237,989	20,654,257	–	20,654,257
As at 31 December 2016	–	–	675,084	3,915,082	246,093	4,836,259	–	4,836,259

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19. CONSTRUCTION IN PROGRESS

	2017 HK\$	2016 HK\$
As at 1 January	–	6,369,951
Additions	2,158,083	1,234,568
Acquisition of subsidiaries (note 37)	469,474	–
Derecognised on disposal of subsidiaries (note 38)	–	(7,602,460)
Exchange alignment	7,808	(2,059)
As at 31 December	2,635,365	–

20. INTANGIBLE ASSETS

	Development costs HK\$	Patents HK\$	Exclusive right HK\$	Total HK\$
Cost:				
As at 1 January 2016	44,796,500	76,470,167	–	121,266,667
Exchange alignment	(3,078,890)	(5,255,840)	–	(8,334,730)
As at 31 December 2016 and 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	45,075,290	76,946,077	42,026,040	164,047,407
Accumulated amortisation and impairment:				
As at 1 January 2016	44,796,500	57,472,496	–	102,268,996
Amortisation charge for the year	–	2,193,905	–	2,193,905
Impairment charge	–	12,956,676	–	12,956,676
Exchange alignment	(3,078,890)	(5,263,849)	–	(8,342,739)
As at 31 December 2016 and 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	45,075,290	76,946,077	1,400,868	123,422,235
Carrying amounts:				
As at 31 December 2017	–	–	40,625,172	40,625,172
As at 31 December 2016	–	3,855,099	–	3,855,099

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For the year ended 31 December 2017

20. INTANGIBLE ASSETS (CONTINUED)

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

Patents represent the registration fee of technologies developed by Troitec, which have been registered with the relevant government authorities to restrict the access of such technologies by third parties. The directors consider that the estimated useful life of the patents of Troitec to be 18 years. As at 31 December 2017, the estimated useful life of the patents remained 7 years.

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 2017. The directors consider that the estimated useful life of the exclusive right to be 10 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\$3,581,132 was recognised in profit or loss during the year ended 31 December 2017 (2016: HK\$12,956,676). For more details of the impairment loss recognised on intangible assets, please refer to note 39.

Amortisation charge for the year ended 31 December 2017 of HK\$530,538 (2016: HK\$2,193,905) is included in "research and development expenses".

21. GOODWILL

	2017 HK\$	2016 HK\$
As at 1 January	3,380,099	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	3,380,099

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

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21. GOODWILL (*CONTINUED*)

Impairment tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill has been allocated to the following CGUs. The carrying amount of goodwill (net of impairment loss) as at 31 December 2017 and 2016 are allocated as follows:

	2017 HK\$	2016 HK\$
Development, production and sales of ADAS products		
– Suzhou Zhihua	161,392,666	–
Finance lease of motor vehicles and equipment	3,380,099	3,380,099
	164,772,765	3,380,099

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 12.31% 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% 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 15.25% (2016: 14.43%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% (2016: 3%) growth rate.

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;

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For the year ended 31 December 2017

21. GOODWILL (*CONTINUED*)

Impairment tests for cash-generating units containing goodwill (*Continued*)

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 2017 %	2016 %	Indirectly 2017 %	2016 %	
Troitec	The PRC, limited liability company	Registered and paid up capital	RMB82,270,400	–	–	65.8	65.8	Production and sale of automotive components in the PRC
Shanxi Jinheng (note (i))	The PRC, limited liability company	Registered and paid up capital	RMB30,040,000	–	–	N/A	–	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	51	Car trading in the PRC
Suzhou Zhihua (note (ii))	The PRC, limited liability company	Registered and paid up capital	RMB38,700,000	–	N/A	36.6	N/A	Development, production and sale of ADAS products in the PRC
Beijing Yinwo (note (ii))	The PRC, limited liability company	Registered and paid up capital	RMB1,000,000	–	N/A	36.6	N/A	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	–	N/A	51	51	Sale of car-carried purifiers in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2017 %	2016 %	Indirectly 2017 %	2016 %	
Qidi Zhixing (note (ii))	The PRC, limited liability company	Registered and paid up capital	RMB6,760,495	–	N/A	100	N/A	Administration and management service to the Group
TUS Cloud Control (note (ii))	The PRC, limited liability company	Registered and paid up capital	Nil	–	N/A	70	N/A	Development of the technologies for the intelligent and connected vehicles cloud control platform

Notes:

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

- (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	
		2017 %	2016 %	2017 %	2016 %	2017 HK\$	2016 HK\$	2017 HK\$	2016 HK\$
Troitec	The PRC	48.8	48.8	48.8	48.8	(616,608)	(9,106,617)	(99,997,309)	(94,246,588)
Shanghai Nanlang	The PRC	49	49	49	49	2,925,880	(266,470)	68,342,473	60,527,834
Suzhou Zhinhua	The PRC	63.4	N/A	63.4	N/A	(753,674)	N/A	40,138,548	N/A

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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\$	2016 HK\$
Current assets	12,000,759	43,273,883
Non-current assets	47,128	203,599
Current liabilities	(216,960,405)	(236,605,736)
Non-current liabilities	–	–
Equity attributable to owners of the Company	(104,915,209)	(98,881,666)
Non-controlling interests	(99,997,309)	(94,246,588)
Revenue	–	–
Expenses	(1,263,542)	(18,661,100)
Loss for the year	(1,263,542)	(18,661,100)
Loss attributable to owners of the Company	(646,934)	(9,554,483)
Loss attributable to non-controlling interests	(616,608)	(9,106,617)
Loss for the year	(1,263,542)	(18,661,100)
Total comprehensive loss attributable to owners of the Company	(6,033,543)	(13,265,071)
Total comprehensive loss attributable to non-controlling interests	(5,750,721)	(12,643,273)
Total comprehensive loss for the year	(11,784,264)	(25,908,344)
Net cash inflow/(outflow) from operating activities	10,531,954	(122,378)
Net cash outflow from investing activities	–	(14,860)
Net cash inflow/(outflow)	10,531,954	(137,238)

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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

	2017 HK\$	2016 HK\$
Current assets	136,240,743	103,911,699
Non-current assets	67,532,773	30,752,587
Current liabilities	(64,299,082)	(11,138,095)
Non-current liabilities	–	–
Equity attributable to owners of the Company	71,131,961	62,998,357
Non-controlling interests	68,342,473	60,527,834
Revenue	116,061,483	90,954,982
Expenses	(110,090,299)	(91,498,799)
Profit/(loss) for the year	5,971,184	(543,817)
Profit/(loss) attributable to owners of the Company	3,045,304	(277,347)
Profit/(loss) attributable to non-controlling interests	2,925,880	(266,470)
Profit/(loss) for the year	5,971,184	(543,817)
Total comprehensive profit/(loss) attributable to owners of the Company	8,133,604	(4,547,059)
Total comprehensive profit/(loss) attributable to non-controlling interests	7,814,639	(4,368,741)
Total comprehensive profit/(loss) for the year	15,948,243	(8,915,800)
Net cash outflow from operating activities	(25,467,968)	(24,447,231)
Net cash outflow from investing activities	(5,942,482)	–
Net cash inflow/(outflow) from financing activities	8,405,208	(6,328,385)
Net cash outflow	(23,005,242)	(30,775,616)

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22. PARTICULARS OF SUBSIDIARIES (CONTINUED)

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

Suzhou Zhihua

	2017 HK\$
Current assets	238,066,779
Non-current assets	17,692,553
Current liabilities	(192,449,319)
Non-current liabilities	–
Equity attributable to owners of the Company	23,171,465
Non-controlling interests	40,138,548
Revenue	26,480,797
Expenses	(27,669,558)
Loss for the period	(1,188,761)
Loss attributable to owners of the Company	(435,087)
Loss attributable to non-controlling interests	(753,674)
Loss for the period	(1,188,761)
Total comprehensive loss attributable to owners of the Company	(54,478)
Total comprehensive loss attributable to non-controlling interests	(94,368)
Total comprehensive loss for the period	(148,846)
Net cash inflow from operating activities	4,942,649
Net cash outflow from investing activities	(7,201,404)
Net cash outflow from financing activities	(10,182,013)
Net cash outflow	(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. INTERESTS IN ASSOCIATES

	2017 HK\$	2016 HK\$
Cost of investment in an associate (unlisted)	10,000,000	10,000,000
Amount due from an associate	–	6,006
Share of post-acquisition loss and other comprehensive income, net of dividend received	(3,429,909)	–
Share of exchange differences of an investment in associates	38,670	–
Impairment loss recognised on amount due from an associate	–	(6,006)
	6,608,761	10,000,000

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
				2017	2016	2017	2016	
Ever Tech Holdings Limited ("Ever Tech")	British Virgin Islands	PRC	Ordinary	30%	30%	30%	30%	Investment holdings
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:

	2017 HK\$	2016 HK\$
Current assets	5,754,329	5,723,181
Non-current assets	30,164,344	38,051,127
Current liabilities	(42,852,463)	(39,322,889)
Non-current liabilities	(484,722)	–
Revenue	5,552,528	–
Loss for the year	(12,005,283)	–
Other comprehensive income for the year	135,352	–
Total comprehensive loss for the year	(11,869,931)	–
Dividend received from the associate during the year	–	–

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:

	2017 HK\$	2016 HK\$
Net (liabilities)/assets of Tuspark Global	(7,418,512)	4,451,419
Proportion of ownership interests in Tuspark Global held by the Group	28.57%	28.57%
Group's share of net (liabilities)/assets of Tuspark Global	(2,119,469)	1,271,770
Goodwill	8,728,230	8,728,230
Carrying amount of the Group's interest in Tuspark Global	6,608,761	10,000,000

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24. INTEREST IN A JOINT VENTURE

	2017 HK\$
Cost of investment in a joint venture	1,540,501
Share of results of a joint venture	(934,076)
Share of exchange differences of an investment in a joint venture	4,619
Share of net assets	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
			2017	2016	2017	2016	
TUS Star International Management Limited ("TUS Star")	British Virgin Islands	The United States	50%	N/A	50%	N/A	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.

	2017 HK\$
Current assets	707,033
Non-current assets	528,704
Current liabilities	(13,649)
Non-current liabilities	–
Revenue	–
Loss for the year	(1,868,151)
Other comprehensive income for the year	9,237
Total comprehensive loss for the year	(1,858,414)
Dividend received from the joint venture during the year	–

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For the year ended 31 December 2017

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:

	2017 HK\$
Net assets of TUS Star	1,222,088
Proportion of ownership interests in TUS Star held by the Group	50%
Group's share of net assets of TUS Star	611,044
Goodwill	–
Carrying amount of the Group's interest in TUS Star	611,044

25. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK\$	2016 HK\$
Unlisted equity investments, at cost (notes (a) – (e))	357,595,055	209,000,000

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 years ended 31 December 2017 and 2016 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Notes: (Continued)

- (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* (蘇州駿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 (approximately HK\$7.78 million), which will be principally engaged in advancing the commercialisation potential of MICHIGAN research discoveries. As at 31 December 2017, USD100,000 (approximately HK\$778,000) has been injected in the gap fund.
- (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.

26. INVENTORIES

	2017 HK\$	2016 HK\$
Raw materials	31,401,399	9,332,519
Work-in-progress	2,071,011	–
Finished goods	50,181,468	8,770,169
	83,653,878	18,102,688

The amount of inventories recognised as an expense under "cost of sales" amounted to HK\$76,493,775 during the year ended 31 December 2017 (2016: HK\$144,459,431).

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For the year ended 31 December 2017

27. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2017 HK\$	2016 HK\$
Non-current:		
Deposit (note (i))	48,029,760	–
Current:		
Trade receivables	90,376,569	163,587
Bills receivables	59,578,156	–
Deposits and prepayments	8,694,280	25,246,446
Other receivables	79,376,628	90,156,728
	238,025,633	115,566,761

Note:

(i) As at 31 December 2017, deposit represents refundable deposit paid for acquisition of car-carried purifiers business.

As at 31 December 2017, HK\$16,948,622 (2016: HK\$Nil) 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 (2016: six months) after the end of the reporting period. All the bills receivables are denominated in RMB.

As at 31 December 2017, included in other receivables mainly comprise amount due from a non-controlling interest shareholder amounting to HK\$29,652,373 (2016: HK\$27,404,658).

Due to the long-aged debt, the Groups decided that the amount would not be collectible and hence impairment on other receivables of HK\$Nil (2016: HK\$4,047,749) was made in accordance with the Group's credit policy regarding the treatment of long-aged debt.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

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

	2017 HK\$	2016 HK\$
Within 3 months	79,110,957	163,587
Over 3 months but less than 6 months	9,217,775	–
Over 6 months but less than 12 months	2,047,837	–
	90,376,569	163,587

The Group generally grants a credit period normally not more than 90 days from the date of billing.

(b) Impairment of trade receivables

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

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

	2017 HK\$	2016 HK\$
As at 1 January	–	10,027,268
Amount written off as uncollectible	–	(10,027,268)
As at 31 December	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

(c) Trade receivables that are not impaired

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

	2017 HK\$	2016 HK\$
Neither past due nor impaired	79,110,957	163,587
Overdue by:		
Less than 3 months	9,217,775	–
Over 3 months but less than 12 months	2,047,837	–
Total	90,376,569	163,587

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. FINANCE LEASE RECEIVABLES

	2017 HK\$	2016 HK\$
Current portion	95,150,945	35,648,588
Non-current portion	58,062,691	29,671,130
	153,213,636	65,319,718

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	
	2017	2016	2017	2016
Not later than 1 year	109,344,142	40,638,650	95,150,945	35,648,588
Later than 1 year not later than 5 years	61,202,809	32,672,679	58,062,691	29,671,130
Later than 5 years	–	–	–	–
	170,546,951	73,311,329	153,213,636	65,319,718
Less: unearned finance income	(17,333,315)	(7,991,611)	–	N/A
Present value of minimum lease payment receivables	153,213,636	65,319,718	153,213,636	65,319,718

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 11.3% per annum for the year ended 31 December 2017 (2016: 11.8%).

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. An impairment loss on finance leases receivables of approximately HK\$1,857,439 (2016: Nil) 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 2017

29. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

	2017 HK\$	2016 HK\$
Pledged bank deposits with original maturity over 3 months (note (i))	63,177,893	–
Cash and cash equivalents (note (ii))	63,446,857	143,781,827
	126,624,750	143,781,827

Notes:

- (i) The interest rates on the pledged bank deposits ranged from 3.32% to 4.08% per annum.

As at 31 December 2017, bank deposits of RMB42.4 million (31 December 2016: HK\$Nil) were pledged to secure general banking facilities granted to Suzhou Zhihua and 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 (2016: 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

	2017 HK\$	2016 HK\$
Trade payables	98,317,671	2,589,082
Bills payables	24,042,580	–
Other payables and accruals	163,688,958	23,064,537
	286,049,209	25,653,619

The credit period on trade payables is normally 90 days.

As at 31 December 2017, HK\$43,084,752 (2016: HK\$7,862,031) and HK\$93,802,144 (2016: HK\$Nil) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

30. TRADE AND BILLS PAYABLES AND OTHER PAYABLES (CONTINUED)

The ageing analysis of trade payables is as follows:

	2017 HK\$	2016 HK\$
Within 3 months	92,787,753	51,545
Over 3 months but less than 6 months	3,648,697	–
Over 6 months but less than 12 months	342	–
Over 12 months	1,880,879	2,537,537
	98,317,671	2,589,082

As at 31 December 2017, bills payables were pledged with bank deposits and bills receivables amounting to approximately HK\$8,651,385 (2016: HK\$Nil) and HK\$16,948,622 (2016: HK\$Nil) respectively.

31. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2017 HK\$	2016 HK\$
As at 1 January	801,035	3,132,768
Provision for income tax for the year (note 13)	972,751	1,473,280
Hong Kong Profits Tax	–	(3,157,123)
PRC Enterprise Income Tax paid	(505,750)	(647,890)
As at 31 December	1,268,036	801,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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\$	Fixed assets HK\$	Others HK\$ (Note)	Convertible bonds HK\$	Total HK\$
As at 1 January 2016	3,942,573	9,009,663	1,499,860	89,499	–	14,541,595
Issue of convertible bond	–	–	–	–	2,977,144	2,977,144
Credit to consolidated statement of profit or loss and other comprehensive income (note 13)	–	(3,513,406)	–	–	(523,956)	(4,037,362)
Derecognised on disposal of subsidiaries	–	–	(1,499,860)	(89,962)	–	(1,589,822)
Exchange alignment	(270,975)	(418,101)	–	463	–	(688,613)
As at 31 December 2016 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	–	–	–	–	4,396,883	4,396,883

Note:

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

	2017 HK\$	2016 HK\$
Deferred tax liabilities recognised on the consolidated statement of financial position	4,396,883	11,202,942

(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\$31,632,923 (2016: HK\$15,535,051) 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. (2016: two to five years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. BORROWINGS

	2017 HK\$	2016 HK\$
Bank loans (notes (a) and (b))	68,442,408	–
Other loans (note (c))	15,541,220	9,667,984
	83,983,628	9,667,984
Secured (notes (a) and (b))	68,442,408	–
Unsecured (note (c))	15,541,220	9,667,984
	83,983,628	9,667,984
Carrying amount repayable:		
On demand or within one year	83,983,628	9,667,984
Less: amounts classified as current liabilities	(83,983,628)	(9,667,984)
	–	–

As at 31 December 2017 and 2016, terms of bank loans and other loans were summarised as follows:

- (a) As at 31 December 2017, the short-term secured bank loans of HK\$68,442,408 (2016: Nil) carries interest rate of 4.75%-5.66% (2016: Nil) per annum.
- (b) As at 31 December 2017, HK\$12,007,440 bank loans were secured by personal guarantee given by a director of the subsidiary, HK\$8,405,208 bank loans were secured by a corporate guarantee, and HK\$48,029,760 bank loans were pledged with the Group's bank deposit amounting to RMB42.4 million.
- (c) As at 31 December 2017, other loans of HK\$15,541,220 (2016: HK\$9,667,984) were obtained from independent third parties, which were unsecured, repayable within one year and carries interest rate of 4.4%-8.5% (2016: 8%) per annum.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. CONVERTIBLE BONDS

	CB 1 (note (a)) HK\$	CB 2 (note (b)) HK\$	Total HK\$
Liability component at 1 January 2016	–	–	–
Add: Liability component on initial recognition at 27 May 2016	42,956,699	–	42,956,699
Add: Imputed interest expense	3,175,491	–	3,175,491
Liability component at 31 December 2016 and 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	51,852,581	282,499,645	334,352,226

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

Notes:

- (a) On 16 May 2016, the Group entered into a sale and purchase agreement with an independent third party for acquiring 7.88% of the issued share capital of Sino Partner at a consideration of HK\$136,000,000, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 2017 and 2016, 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% (2016: 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 2017, the outstanding principal amount of the CB 2 was HK\$300,000,000. Interest expense on the CB 2 is calculated using the effective interest method by applying the effective interest rate of 12.49% 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 2017, a total number of 1,000,000 (2016: 67,360,000) 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

During the year ended 31 December 2017, no share options were cancelled or exercised. A total of 1,000,000 share options were lapsed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 HK\$	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 hold position as a consultant within the Group.

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For the year ended 31 December 2017

35. SHARE OPTION SCHEMES (CONTINUED)

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

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	At 1 January 2016	Granted during the year	Cancelled during the year	At 31 December 2016
Directors	25 June 2015	Immediately	25 June 2015 to 24 June 2016	1.84	23,200,000	–	(23,200,000)	–
Consultant (note)	25 June 2015	Immediately	25 June 2015 to 24 June 2016	1.84	4,640,000	–	(4,640,000)	–
Directors	1 September 2015	Immediately	1 September 2015 to 31 August 2016	0.93	9,280,000	–	(9,280,000)	–
Directors	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	–	2,400,000
Directors	12 October 2016	1 year	12 October 2017 to 11 October 2026	0.822	–	27,840,000	–	27,840,000
					37,120,000	67,360,000	(37,120,000)	67,360,000
Exercisable at the end of the year								67,360,000
Weighted average exercise price (HK\$)					1.613	0.821	1.613	0.821

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. SHARE OPTION SCHEMES (CONTINUED)

The fair value of the options granted is estimated at the date of grant using Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. The fair values of options granted during the year ended 31 December 2017 and 2016 were estimated on the date of grant using the following assumptions:

	Share Option 1	Share Option 2	Share Option 3
Date of grant	22 January 2016	12 October 2016	31 March 2017
Fair value at measurement date	HK\$0.294	HK\$0.427	HK\$0.324
Share price	HK\$0.720	HK\$0.780	HK\$0.720
Exercise price	HK\$0.820	HK\$0.822	HK\$0.720
Expected volatility	56.121%	70.550%	73.160%
Option life	10 years	10 years	10 years
Expected dividends	0.00%	0.00%	0.00%
Risk-free interest rate	1.590%	1.105%	1.666%

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 2017, the total fair value of the share options granted was HK\$324,309 (2016: HK\$13,590,585).

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

	2017		2016	
	Number of shares	HK\$	Number of shares	HK\$
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000,000	10,000,000,000	100,000,000
<i>Issued:</i>				
As at 31 December	928,184,888	9,281,849	928,184,888	9,281,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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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\$252,358,893 at 31 December 2017 (2016: HK\$318,055,421), which include the Company's share premium and accumulated losses.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. Net debt is calculated as aggregate of bank loans and other loans less cash and cash equivalents. Adjusted capital comprises all components of equity.

During the year ended 31 December 2017, the Group has complied with all the externally imposed capital requirements. The Group also has a strategy to maintain the net debt-to-adjusted capital ratio at or below 60% (2016: 60%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. CAPITAL AND RESERVES (CONTINUED)

(d) Capital management (Continued)

The net debt-to-adjusted capital ratio at 31 December 2017 was as follows:

	2017 HK\$	2016 HK\$
Debt (note (a))	418,335,854	55,800,174
Less: Cash and cash equivalents	(126,624,750)	(143,781,827)
Net debt	291,711,104	(87,981,653)
Total equity (note (b))	533,000,094	480,384,681
Net debt-to-adjusted capital ratio	54.7%	N/A

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 of the Group.

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. ACQUISITION OF SUBSIDIARIES (CONTINUED)

As at the date of acquisition, the fair values of identifiable assets of acquired subsidiaries are as follow:

	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

For the year ended 31 December 2017

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\$26,938,353 and profit of HK\$2,620,201 contributed by Suzhou Zhihua Group, were recognised in the Group's loss for the year ended 31 December 2017.

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. DISPOSAL OF SUBSIDIARIES

On 1 March 2016, the Company entered into a disposal agreement pursuant to which the Company agreed to dispose of the entire issued share capital of Smooth Ever Limited and its subsidiaries (collectively, the "Smooth Ever Group") with a consideration of HK\$34,000,000. The disposal was completed on 31 March 2016.

Summary of the effects of the disposal of Smooth Ever Group is as follows:

	HK\$
Net assets disposed of:	
Property, plant and equipment	25,872,798
Construction in progress	7,602,460
Interests in leasehold land held for own use under operating leases	9,641,114
Inventories	9,576,761
Trade receivables, prepayments and other receivables	34,918,421
Cash and cash equivalents	5,023,127
Trade and other payables	(56,655,646)
Deferred tax liabilities	(1,589,822)
Non-controlling interests	(15,803,342)
	18,585,871
Release of exchange reserve	(11,582,867)
Gain on disposal	26,996,996
Consideration received in cash and cash equivalents for disposal of Smooth Ever Group	34,000,000

Net cash inflow on disposal of Smooth Ever Group:

	HK\$
Consideration received in cash and cash equivalent for disposal of Smooth Ever Group	15,000,000
Less: cash and cash equivalent balances disposed of	(5,023,127)
Net cash inflow	9,976,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. 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 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 12.31% and 3% respectively. No impairment loss has been recognised during the year ended 31 December 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.

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 2017 and 2016 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 15.25% (2016: 14.43%) and 3% (2016: 3%) respectively. No impairment loss has been recognised during the year ended 31 December 2017 (2016: HK\$Nil) (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. IMPAIRMENT TESTING ON CASH-GENERATING UNITS (*CONTINUED*)

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 2016 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 (2016: 8-year) period with discount rate and terminal growth rate of 21.34% (2016: 21.79%) and 0% (2016: 3%) respectively as at 31 December 2017 since no more revenue will be generated.

An impairment loss of HK\$3,581,132 (2016: HK\$12,956,676) 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;
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

40. COMMITMENTS AND CONTINGENCIES

At 31 December 2017 and 2016, the total future minimum lease payments under non-controllable operating leases were payable as follows:

	2017 HK\$	2016 HK\$
Within 1 year	4,517,600	2,625,849
After 1 year but within 5 years	2,383,547	1,313,690
	6,901,147	3,939,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions during the year.

(a) Transaction with related party

	2017	2016
	HK\$	HK\$
Interest expenses on the convertible bond subscribed by a shareholder:		
Tuspark Venture	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:

	2017	2016
	HK\$	HK\$
Short-term employee benefits	13,260,967	10,379,357
Post-employment benefits	117,000	87,726
Share-based payments	9,875,567	12,925,450
	23,253,534	23,392,533

Total remuneration is included in "staff costs" (see note 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to bills payables or borrowings of the Group as follows:

	2017 HK\$	2016 HK\$
Bills receivables	16,948,622	–
Pledged bank deposits	63,177,893	–
	80,126,515	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK\$	2016 HK\$
Non-current assets		
Property, plant and equipment	26,956	–
Investments in subsidiaries	37,265,565	37,265,550
Available-for-sale investment	778,000	–
	38,070,521	37,265,550
Current assets		
Prepayments and other receivables	26,805,481	26,878,018
Amounts due from subsidiaries	496,855,592	245,330,956
Pledged bank deposits	54,526,508	–
Cash and cash equivalents	43,830,303	81,197,023
	622,017,884	353,405,997
Current liabilities		
Other payables and accruals	2,903,100	900,000
	2,903,100	900,000
Non-current liabilities		
Deferred tax liabilities	4,396,883	2,453,189
Convertible bonds	334,352,226	46,132,190
	338,749,109	48,585,379
Net current assets	619,114,784	352,505,997
Net assets	318,436,196	341,186,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	2017 HK\$	2016 HK\$
Capital and reserves		
Share capital	9,281,849	9,281,849
Reserves	309,154,347	331,904,319
Total equity	318,436,196	341,186,168

Approved and authorised for issue by the Board of Directors on 26 March 2018

Ma Chi Kong Karl
Chairman

Woo Kar Tung Raymond
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY
(CONTINUED)

Reserve of the Company

	Share capital HK\$	Share premium HK\$	Share option reserve HK\$	Convertible bonds reserves HK\$	(Accumulated losses)/ retained profits HK\$	Total HK\$
As at 1 January 2016	9,281,849	477,037,709	16,173,403	–	(30,760,391)	471,732,570
Loss for the year	–	–	–	–	(159,203,144)	(159,203,144)
Share-based payments	–	–	13,590,585	–	–	13,590,585
Issue of convertible bond	–	–	–	18,043,301	–	18,043,301
Deferred taxation of convertible bond	–	–	–	(2,977,144)	–	(2,977,144)
Cancellation of share options	–	–	(16,173,403)	–	16,173,403	–
As at 31 December 2016 and 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	9,281,849	477,037,709	23,457,860	33,337,594	(224,678,816)	318,436,196

44. CONTINGENT LIABILITIES

As at 31 December 2017 and 2016, the Group did not have any significant contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	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
At 31 December 2017	83,983,628	334,352,226	418,335,854

46. MAJOR NON-CASH TRANSACTION

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.

During the year ended 31 December 2016, the investment cost of acquisition of an associate was settled by the deposit of HK\$10,000,000 and issue of convertible bond of HK\$61,000,000 for acquisition of 7.88% of the issued share capital of the Sino Partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. EVENTS AFTER THE REPORTING PERIOD

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 agree to each contribute RMB50.0 million in cash and jointly establish China Intelligent and Connected Vehicle (Beijing) Research Institute Co. Ltd. (the “Center”), and shall each hold approximately 8.33% of the Center’s equity interest. The Center is expected to be recognised by Ministry of Industry and Information Technology of the PRC as the National Innovation Center after the establishment of the entity.

On 20 March 2018, Suzhou Qiyizhi, a subsidiary of the Company, entered into an equity transfer agreement with Suzhou Huaye Automobile Technology Development Company Limited (“Suzhou Huaye”) and pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 4.2636% equity interests in Suzhou Zhihua from Suzhou Huaye in consideration of RMB17.0 million.

Saved as disclosed above, so far as is known to the Directors, there are no other subsequent events occurred after 31 December 2017, which may have significant effects, on the assets and liabilities of future operations of the Group.

48. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2018.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2017

	2013 HK\$	For the year ended 31 December			2017 HK\$
		2014 HK\$	2015 HK\$	2016 HK\$	
Operating Results					
Revenue	199,820,947	184,878,802	194,606,323	216,801,681	202,692,616
Loss before Taxation	(101,619,683)	(136,299,564)	(199,461,182)	(40,362,088)	(80,846,051)
Taxation	1,152,753	1,186,020	(1,851,358)	2,564,082	10,322,568
Loss for The year	(100,466,930)	(135,113,544)	(201,312,540)	(37,798,006)	(70,523,483)
Attributable to:					
Owners of the Company	(62,824,918)	(96,080,590)	(144,698,559)	(30,608,215)	(75,283,337)
Non-controlling interests	(37,642,012)	(39,032,954)	(56,613,981)	(7,189,791)	4,579,854
Loss for the year	(100,466,930)	(135,113,544)	(201,312,540)	(37,798,006)	(70,523,483)
Loss per share					
– Basic and diluted	(12.26) cents	(16.35) cents	(17.18) cents	(3.30) cents	(8.11) cents
Assets and liabilities					
Non-current assets	375,476,818	132,166,912	152,883,908	260,742,587	699,594,870
Net current assets	221,238,879	381,354,415	379,284,814	276,977,226	172,154,333
Total assets less current liabilities	596,715,697	513,521,327	532,168,722	537,719,813	871,749,203
Non-current liabilities	(20,124,266)	(16,538,705)	(14,541,595)	(57,335,132)	(338,749,109)
NET ASSETS	576,591,431	496,982,622	517,627,127	480,384,681	533,000,094
Capital and reserves					
Share capital	5,117,189	7,368,209	9,281,849	9,281,849	9,281,849
Reserves	549,017,433	521,420,638	531,707,336	517,662,384	478,837,851
Equity attributable to owners of the Company	554,134,622	528,788,847	540,989,185	526,944,233	488,119,700
Non-controlling interests	22,456,809	(31,806,225)	(23,362,058)	(46,559,552)	44,880,394
TOTAL EQUITY	576,591,431	496,982,622	517,627,127	480,384,681	533,000,094