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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in TUS International Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**啟迪國際**  
TUS INTERNATIONAL

**TUS INTERNATIONAL LIMITED**

**啟迪國際有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 872)**

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO  
THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL  
OF TELIT AUTOMOTIVE SOLUTIONS NV**

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Capitalised terms used on this cover shall have the same meanings as those defined in the section headed “Definitions” in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 10 to 14 of this circular.

A notice convening the EGM of TUS International Limited to be held at Regus Conference Centre, 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 29 January 2019 at 10:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use by the Shareholders at the EGM is also enclosed. Such form of proxy is also published on the respective websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.tus-i.com](http://www.tus-i.com)). Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

26 December 2018

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“Acquisition”	the proposed acquisition of the Sale Shares as contemplated under the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 12 July 2018 entered into between the Company, the Vendors and the Target Company in relation to the Acquisition, as amended and supplemented by the Side Letter
“ADAS”	advanced driving assistance system
“APAC”	the Asia Pacific region
“Assets”	all specified property, rights and assets of the Reorganisation Sellers or the Target Company or Telit France (owned directly or indirectly) exclusively used in connection with the Business
“Board”	the board of Directors
“Business”	the development, manufacture and sale of auto grade cellular modules to car OEMs or to Tier 1 suppliers for installation in cars in the assembly line and V2X modules, as carried on collectively by the Target Company, Telit France and the Reorganisation Sellers or the New Subsidiaries immediately prior to the Completion Date
“Business Day”	a day that is not a Friday or Saturday or Sunday or a public holiday in England, Hong Kong or Israel
“CAGR”	compound annual growth rate
“CCID”	CCID Consulting Company Limited, being a company listed on the GEM of the Stock Exchange (stock code: 08235) which engages in the provision of, among other things, consultancy and data information management services
“CCID Report”	a report issued by CCID on 13 March 2018
“Circular Long Stop Date”	31 December 2018

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## DEFINITIONS

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“Company”	TUS International Limited (啟迪國際有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00872)
“Completion”	the completion of the sale and purchase of all the issued shares of the Target Company pursuant to and in accordance with the Acquisition Agreement
“Completion Accounts”	the Completion Cash, the Completion Debt and the Completion Working Capital of the Target Group on a consolidated basis as at the Completion Date, as agreed or determined in accordance with the Acquisition Agreement
“Completion Cash”	the aggregate amount of cash (if any) held by or on behalf of the Target Group as at the Completion Date as derived from the Completion Accounts
“Completion Date”	the date on which Completion takes place
“Completion Debt”	the aggregate amount of debts (if any) of the Target Group and the Shareholder Debt at the Completion Date as derived from the Completion Accounts
“Completion Working Capital”	the aggregate value of the current assets of the Target Group excluding items which are part of Completion Cash as at the Completion Date, less the aggregate value of the current liabilities of the Target Group excluding the items which are part of Completion Debt as at the Completion Date, as derived from the Completion Accounts
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate consideration of US\$105 million (equivalent to approximately HK\$824.25 million), subject to adjustments at Completion pursuant to the Acquisition Agreement

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## DEFINITIONS

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“Dawin”	Dawin (H.K.) Limited (大榮(香港)有限公司), a company incorporated in Hong Kong with limited liability, and a Shareholder holding 50,000,000 Shares, representing approximately 3.78% of the issued share capital of the Company, as at the Latest Practicable Date
“Director(s)”	director(s) of the Company
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Shareholders to consider, and if thought fit, to approve the ordinary resolution(s) in respect of the Acquisition Agreement and the transactions contemplated thereunder
“EMEA”	Europe, the Middle East and Africa
“Enlarged Group”	the Group as enlarged by the Acquisition
“Escrow Agent”	ABN AMRO Bank N.V.
“Excluded Assets”	all assets belonging to the Reorganisation Sellers other than the Assets
“Excluded Business”	all businesses belonging to the Reorganisation Sellers or the Target Company or Telit France other than the Business
“GPRS”	an acronym for General Packet Radio Service, which is a packet oriented mobile data service on the 2G and 3G cellular communication system
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

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## DEFINITIONS

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“Hong Kong Ben Ling”	Hong Kong Ben Ling International Industrial Limited (香港奔羚國際實業有限公司), a company incorporated in Hong Kong with limited liability, whose wholly-owned subsidiary is a Shareholder holding 40,000,000 Shares, representing approximately 3.02% of the issued share capital of the Company, as at the Latest Practicable Date
“Initial Announcement”	the announcement of the Company dated 12 July 2018 in relation to, among other things, the Acquisition
“IoT”	an acronym for Internet of Things, which is the interconnection via the internet of computing devices embedded in everyday objects, enabling them to send and receive data
“IP”	intellectual property
“IP Licence Agreement”	the intellectual property licence and licence back agreement (in the agreed form) to be entered into by and among the Reorganisation Sellers, the Target Company, Telit France and the Company as part of the Reorganisation
“Latest Practicable Date”	24 December 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 January 2019
“LTE-A”	an acronym for Long Term Evolution Advanced, which is a mobile communication standard used on 4G cellular communication systems
“Mr. Cen”	Mr. Cen Gangqi, a Shareholder holding 60,000,000 Shares, representing approximately 4.53% of the issued share capital of the Company, as at the Latest Practicable Date

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## DEFINITIONS

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“Mr. Ma”	Mr. Ma Chi Kong Karl, the Chairman of the Board and an executive Director, and a Shareholder holding 210,718,000 Shares, representing approximately 15.93% of the issued share capital of the Company, as at the Latest Practicable Date
“Mr. Shen”	Mr. Shen Xiao, an executive Director and the president of the Company, and a shareholder holding 50,000,000 Shares, representing approximately 3.78% of the issued share capital of the Company, as at the Latest Practicable Date
“New Subsidiaries”	the corporate entities to be newly incorporated in Germany, Korea and Israel each as a direct wholly-owned subsidiary of the Target Company and each as the receiving entity for the transfer of assets and employees from the relevant Reorganisation Sellers in the corresponding jurisdiction, in each case pursuant to the Reorganisation
“OEMs”	an acronym for original equipment manufacturers
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“R&D”	research and development
“Relevant Shareholders”	Mr. Ma, Tuspark Venture, Mr. Shen, Mr. Cen, Hong Kong Ben Ling, Dawin and Sumchi (and, in respect of Hong Kong Ben Ling and Sumchi, their respective wholly-owned subsidiaries which are or will be holding Shares, as the case may be)
“Reorganisation”	the reorganisation in respect of the Target Group as required under the Acquisition Agreement, a summary of which is set out the section headed “Reorganisation” of the “Letter from the Board” of this circular
“Reorganisation Agreement”	the reorganisation agreement to be entered into by and among the Target Company, the New Subsidiaries and the Reorganisation Sellers in relation to the Reorganisation

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## DEFINITIONS

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“Reorganisation Sellers”	certain subsidiaries of Telit Communications, which collectively hold certain of the Assets and the Business as at the Latest Practicable Date
“Registrar”	the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	all the issued shares of the Target Company at Completion
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder Debt”	any financial indebtedness owing, accrued or payable by the Target Group to a member of the Telit Group (other than a member of the Target Group)
“Side Letter”	the side letter dated 11 December 2018 and entered into between the Company, the Vendors and the Target Company for, among other matters, extending the Circular Long Stop Date from 12 December 2018 to 31 December 2018 and the Long Stop Date from 12 January 2019 to 31 January 2019, details of which are set out in the Company’s announcement dated 11 December 2018
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sumchi”	Sumchi International Co., Limited (順啟國際有限公司), a company incorporated in Hong Kong with limited liability, and a shareholder holding 50,000,000 Shares, representing approximately 3.78% of the issued share capital of the Company, as at the Latest Practicable Date
“Takeovers Code”	the Code on Takeovers and Mergers

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## DEFINITIONS

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“Target Company”	Telit Automotive Solutions NV, a company incorporated and registered in the Kingdom of Belgium, which is held as to approximately 99.35% by Telit Communications and approximately 0.65% by Telit Wireless as at the Latest Practicable Date
“Target Group”	the Target Company, Telit France and the New Subsidiaries
“Target Working Capital”	US\$0, being the amount agreed by the parties to be the target working capital of the Target Group at Completion
“Telit Communications”	Telit Communications PLC, a public limited company incorporated in England and Wales, the shares of which are listed on the AIM market of the London Stock Exchange (stock code: TCM)
“Telit France”	Telit Automotive Solutions S.a.r.l., a company incorporated in France with limited liability
“Telit Group”	Telit Communications and its subsidiaries which, for the avoidance of doubt: (a) prior to Completion, includes the Company, Telit France and the New Subsidiaries (to the extent incorporated/owned); and (b) following Completion, excludes the Company, Telit France and the New Subsidiaries
“Telit Wireless”	Telit Wireless Solutions S.R.L, a company incorporated and registered in Italy, which is a subsidiary of Telit Communications
“Transfer Costs”	any taxes up to a maximum of US\$500,000 relating to the Reorganisation to the extent that such taxes would normally fall to the Company; and any amounts incurred by the Target Company, Telit France or the Reorganisation Sellers at the request or with the consent of the Company
“Transferring Employees”	certain employees of the Reorganisation Sellers who will commence employment with the Target Company, Telit France or a New Subsidiary in connection with the Reorganisation

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## DEFINITIONS

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“Transitional Services Agreement”	the transitional services agreement (in the agreed form) to be entered into by certain Reorganisation Sellers and the Target Company in relation to the provision of certain information technology services and other transitional services by such Reorganisation Sellers to the Target Group
“Tus-Holdings”	Tus-Holdings Co., Ltd.* ( 啟迪控股股份有限公司 ), a company established in the PRC with limited liability and the immediate holding company of Tuspark Venture, holding the entire issued share capital of Tuspark Venture
“Tuspark Venture”	Tuspark Venture Investment Ltd. ( 啟迪創投有限公司 ), a company incorporated in the British Virgin Islands with limited liability, and a Shareholder holding 212,490,802 Shares, representing approximately 16.06% of the issued share capital of the Company, as at the Latest Practicable Date
“US”	the United States of America
“US\$”	United States dollars, the lawful currency of the US
“V2X”	an acronym for vehicle-to-everything communication technology, which is a form of wireless technology that allows the passing of information from a vehicle to any entity that may affect the vehicle, or vice versa
“VAT”	value added tax
“Vendors”	Telit Communications and Telit Wireless
“2G”	an acronym for Second-Generation Cellular technology, being the second generation of wireless mobile telecommunication technology
“3G”	an acronym for Third-Generation Wireless System, being the third generation of wireless mobile telecommunication technology
“3.5G”	an enhanced 3G mobile communications protocol, being an interim mobile communication system between 3G and 4G

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## DEFINITIONS

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“4G”	an acronym for Fourth-Generation Wireless System, being the fourth generation of broadband cellular network technology succeeding 3G
“5G”	an acronym for fifth generation of mobile communication standards, the proposed next communications standard beyond 4G
“%”	per cent.

*In this circular, for illustration purposes only, US\$ has been converted into HK\$ at the rate of US\$1.00:HK\$7.85 and RMB has been converted into HK\$ at the rate of RMB1.00:HK\$1.19. No representation is made that any amounts of US\$ or HK\$ have been, could have been or could be converted at the above rate or at any other rate or at all.*

*\* The English transliteration of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s)*

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## LETTER FROM THE BOARD

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啟迪國際

TUS INTERNATIONAL

### TUS INTERNATIONAL LIMITED

啟迪國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 872)**

*Executive Directors:*

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

*Non-executive Directors:*

Mr. Tsang Ling Bui, Gilbert  
Mr. Qin Zhiguang

*Independent non-executive Directors:*

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

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head office and principal place  
of business in the PRC:*

Room KJ02-07, 2nd Floor  
Qidi Ke Jian Building  
Building No. 6  
No. 1 Zhongguancun East Road  
Haidian District, Beijing, PRC

*Principal place of business  
in Hong Kong:*

Unit 416, Level 4, Core F, Cyberport 3,  
100 Cyberport Road, Hong Kong

26 December 2018

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION  
IN RELATION TO  
THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL  
OF TELIT AUTOMOTIVE SOLUTIONS NV**

**1. INTRODUCTION**

As stated in the Initial Announcement, on 12 July 2018, the Company, the Vendors and the Target Company entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to buy and the Vendors conditionally agreed to sell all the issued shares of the Target Company at the aggregate consideration of US\$105 million (equivalent to approximately HK\$824.25 million), subject to adjustments with reference to the aggregate cash, debt and working capital of the Target Group at Completion and the Transfer Costs. Further details of the Consideration are set out in the section headed “The Acquisition Agreement – Consideration” below.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition, (ii) the accountant's report on the Target Group and the Business, (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) other information as required under the Listing Rules; and (v) a notice of the EGM.

### 2. THE ACQUISITION AGREEMENT

#### Date

12 July 2018

#### Parties

- (i) the Company;
- (ii) the Vendors; and
- (iii) the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and the Target Company are independent of the Company and connected persons of the Company.

#### Subject matter of the Acquisition Agreement

Pursuant to the Acquisition Agreement, the Vendors conditionally agreed to sell and the Company conditionally agreed to buy the Sale Shares, representing all the issued shares of the Target Company at Completion. The Vendors shall implement the Reorganisation so that the Target Company will be the holding company of the Target Group at Completion.

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## LETTER FROM THE BOARD

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### Consideration

The Consideration for the acquisition of the Sale Shares is US\$105 million (equivalent to approximately HK\$824.25 million), subject to adjustments at Completion as follows and an overall cap of US\$125 million (equivalent to approximately HK\$981.25 million):

$$\text{Consideration} = A + B - C + D - E + F$$

Where:

“A” means US\$105 million;

“B” means the Completion Cash;

“C” means the Completion Debt;

“D” means the Completion Working Capital;

“E” means the Target Working Capital; and

“F” means the Transfer Costs.

On Completion, the Shareholder Debt will be repaid by the Target Company in full.

The Consideration will be paid by the Company to the Vendors in cash upon Completion and is expected to be funded by a combination of the internal resources of the Group and possible debt and/or equity financing from banks and other investors based on the available fund raising options, pertinent terms thereof as well as the prevailing market conditions. As at 30 June 2018, the assets of the Group included, among other things, (i) cash and cash equivalent of approximately HK\$148.2 million; and (ii) current portion of finance lease receivables of approximately HK\$100.8 million.

At the Latest Practicable Date, the Company is contemplating a three-year term loan with principal amount of US\$35 million (equivalent to approximately HK\$274.75 million) subject to the final approval from the relevant bank to finance the Acquisition. The Company currently expects to enter into the definitive financing documents with the relevant bank by January 2019 barring unforeseen circumstances.

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## LETTER FROM THE BOARD

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Taking into account the Company's available internal resources and possible debt financing, the Company is contemplating a further fund raising of not more than US\$85 million (equivalent to approximately HK\$667 million) by way of placing/subscription of new shares and/or convertible bond issuance to finance the Acquisition and for other purposes. The Company currently targets to approach certain existing shareholders of the Company (including the Relevant Shareholders) to participate in such equity financing such as by way of issuance of new Shares for subscriptions by Tuspark Venture in the subscription amount of approximately US\$30 million and by two other investors who are independent of the Company and its connected persons in the total subscription amount of approximately US\$55 million and has also engaged one investment bank in November 2018 as placing agent, who will use its reasonable endeavours to place such new shares and/or convertible bond to places who are professional, institutional and/or other investors. It is expected that such equity financing transaction will be subject to Shareholders' approval at an extraordinary general meeting of the Company. The Company intends to enter into definitive subscription agreements with Tuspark Venture and the two other investors in the first week of January 2019 and will publish announcement(s) accordingly. If the Company fails to conduct such equity fund raising, the Company will need to negotiate with Tuspark Venture and the other investors for considering other fundraising options. The Company is confident that it will obtain the necessary support from the Shareholders with reference to its recent successful experience in procuring the irrevocable undertakings given by the Relevant Shareholders, and will be able to raise not more than US\$85 million (equivalent to approximately HK\$667 million) through share placement and/or convertible bond issuance.

The Company is confident that it will be able to carry out the necessary fund raising activities (including the debt and equity raising mentioned above) for meeting its payment obligations upon Completion. The Company currently expects that Tuspark Venture will remain the single largest shareholder of the Company after completion of the fund raising and does not expect there would be a change in control (as defined in the Takeovers Code) of the Company as a result of the fund raising. The Company will publish further announcement(s) in respect of such fund raising activities in compliance with the Listing Rules as and when appropriate.

### **Basis of determination of the Consideration**

The Consideration was determined after arm's length negotiations among the parties to the Acquisition Agreement, with reference to, among other things:

- (i) the business and financial performance of the Target Group, in particular, its product offerings, its track record of expanding the customer base and its technology competence, as set out in the section headed "Information on the Target Group" below;
- (ii) the Target Group's business model and pipeline projects on hand at different phases, as set out in the section headed "Information on the Target Group" below;

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## LETTER FROM THE BOARD

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- (iii) the future prospect of the smart mobility sector in the worldwide automobile industry. According to the CCID Report, the global automotive connectivity modules market is projected to grow from approximately US\$12.7 billion (equivalent to approximately HK\$99.7 billion) in 2017 to approximately US\$28.2 billion (equivalent to approximately HK\$221.4 billion) in 2020 at a CAGR of approximately 30.4%, while the automotive connectivity modules market in China is expected to reach approximately RMB5.5 billion (equivalent to approximately HK\$6.5 billion) in 2020 with a CAGR of approximately 47.6%;
- (iv) other market comparables considered by the Company. The Consideration represents approximately 11.2 times of the 2017 EBITDA of the Target Group which is in line with trading multiples of the major listed global players in automotive-grade wireless connectivity module market according to CCID Report, namely LG Innotek Co., Ltd, Continental Aktiengesellschaft, Valeo SA, Sierra Wireless, Inc, Gemalto N.V., u-blox Holding AG and Wistron NeWeb Corporation; and
- (v) the expected synergies between our existing business and the Target Group, as set out in the section headed “Reasons for and benefits of the Acquisition” below, in particular the growth potential of the Enlarged Group as a whole, taking into account the extensive market access gained by the Target Group’s business and the Group’s existing business and significant cross-selling opportunities resulting therefrom.

CCID is a Chinese consulting firm, the shares of which are listed in the Growth Enterprise Market of the Stock Exchange (stock code: 08235). Based on CCID’s annual report of 2017 and information available on CCID’s website, its businesses cover over 200 large and medium-sized cities in China, its customers include governmental authorities at all levels, industrial parks and enterprises; and its research areas include, without limitation, software and information services, internet, telecommunications, vehicles and high-end equipment. As stated in CCID’s annual report of 2017, CCID provided corporate consulting services to enterprises and financial institutions, including Huawei, Nio Auto, 360.cn, Country Garden, Luneng Real Estate, PKU Resources, Yangtze River Industry Fund, Haihe River Industry Fund, and Aplus Fund.

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## LETTER FROM THE BOARD

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Based on the CCID Report, the estimated automotive connectivity modules market size for 2020 was based on the automobile annual production volume, penetration rate of connected vehicles, number of automotive connectivity modules per vehicle and the price per automotive connectivity module. Based on the strategic plan for intelligent connected vehicles in countries or region such as China, the United States and the European Union, CCID expects that the penetration rate will increase rapidly from 2018 to 2020, and the number of automotive connectivity modules per vehicle will also grow steadily. CCID expects that the global average price per automotive connectivity module will decrease as technology becomes more advanced which will lower the manufacturing costs.

Considering the factors set out above, the Board considers the Consideration to be fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **Conditions Precedent**

Completion of the Acquisition Agreement is conditional upon the satisfaction or (if applicable) the waiver of the following conditions precedent on or before 5:30 p.m. on the Long Stop Date:

- (a) the passing at a duly convened and held general meeting of the Company (or an adjournment thereof) of the necessary resolutions to approve the Acquisition Agreement and the transactions contemplated thereunder; and
- (b) completion of the Reorganisation.

The condition set out in paragraph (a) above may not be waived by any party and the condition set out in paragraph (b) may be waived by the Company. As the Reorganisation involves various steps and corporate actions to be undertaken by different entities across several jurisdictions (details of which are set out in the section headed “Reorganisation” below), the Company considers that it is beneficial for the Company to have the right and flexibility to give waiver as the necessity may arise including, if necessary, allowing an extension of the time for satisfaction of the relevant condition and imposing other conditions in the waiver. The Company will only consider giving any waiver for immaterial matters which do not materially affect the independent operations, financial performance or business of the Target Group and do not prejudice the interests of the Company and its Shareholders, or if, following the waiver, the Company would remain in materially the same economic position as the Company would have been in had the relevant condition(s) been fulfilled.

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## LETTER FROM THE BOARD

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The Company will seek approval from the Shareholders if it intends to give any waiver for the condition set out in paragraph (b) that would constitute a material change in terms of the Acquisition, and will not give such waiver without seeking Shareholders' prior approval such that Completion will not take place if the Reorganisation has not yet been completed in all material respects, in particular, in the event that (i) the Transitional Services Agreement has not been entered into; or (ii) the transferring of the Transferring IPR and the licensing of the Retained IPR pursuant to the IP Licence Agreement has not taken place. If (i) this circular is not despatched to the Shareholders on or before 5:30 p.m. on the Circular Long Stop Date or (ii) the Reorganisation Agreement is not entered into on or before 5:30 p.m. on the Circular Long Stop Date, the Acquisition Agreement will terminate and the parties will have no further rights or obligations under the Acquisition Agreement, other than accrued rights and obligations at that time.

As at the Latest Practicable Date, the above conditions have not yet been fulfilled.

### **Escrow Fund**

On the date of the Acquisition Agreement, the Company, Telit Communications and the Escrow Agent entered into an escrow agreement, pursuant to which the Company deposited an amount of US\$7.5 million (equivalent to approximately HK\$58.9 million) into an escrow account maintained by the Escrow Agent as an escrow fund (the "**Escrow Fund**"), which comprises (i) a break fee of US\$5.0 million (equivalent to approximately HK\$39.3 million) and (ii) a reorganisation fee of US\$2.5 million (equivalent to approximately HK\$19.6 million).

At Completion, an amount equal to the Escrow Fund will be deducted from the amount of Consideration payable by the Company to the Vendors, and the Company shall cause to be released an amount equal to the Escrow Fund to the Vendors.

The Company shall forfeit its right to the Escrow Fund and the parties shall release or cause to be released the Escrow Fund to the Vendors if the Acquisition Agreement terminates in the following circumstances:

- (a) this circular is not despatched to the Shareholders by 5:30 p.m. on the Circular Long Stop Date and condition (a) under "Conditions Precedent" above is not fulfilled by 5:30 p.m. on the Long Stop Date, other than where such termination arises from or in connection with the Vendors' failure to provide to the Company such information relating to the Business as the Company may reasonably require for the purposes of preparation of this circular;

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## LETTER FROM THE BOARD

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- (b) the Reorganisation Agreement is not entered into by 5:30 p.m. on the Circular Long Stop Date or condition (b) under “Conditions Precedent” above is not fulfilled by 5:30 p.m. on the Long Stop Date, where such termination arises from or in connection with the Company’s failure to comply with its obligations in the Acquisition Agreement in respect of the Reorganisation; or
- (c) the Company fails to fulfill any of its material obligations set out in the Acquisition Agreement at the time when Completion is due to take place.

The Vendors shall forfeit their right to the Escrow Fund and the parties shall release or cause to be released the Escrow Fund to the Company if the Acquisition Agreement terminates in the following circumstances:

- (a) the Company elects not to complete the Acquisition where (i) there is a material breach of warranties or obligations and such breach has not been remedied within a given time period or (ii) a matter arises at any time between the signing of the Acquisition Agreement and the Completion that has a material adverse effect and such effect has not been remedied within a given time period;
- (b) the Reorganisation Agreement is not entered into by 5:30 p.m. on the Circular Long Stop Date or condition (b) under “Conditions Precedent” above is not fulfilled by 5:30 p.m. on the Long Stop Date, other than where such termination arises from or in connection with the Company’s failure to comply with its obligations in the Acquisition Agreement in respect of the Reorganisation;
- (c) this circular is not despatched to the Shareholders by 5:30 p.m. on the Circular Long Stop Date and condition (a) under “Conditions Precedent” above is not fulfilled by 5:30 p.m. on the Long Stop Date, where such termination arises from or in connection with the Vendors’ failure to provide to the Company such information relating to the Business as the Company may reasonably require for the purposes of preparation of this circular; or
- (d) the Vendors fail to fulfill any of their material obligations set out in the Acquisition Agreement at the time when Completion is due to take place.

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## LETTER FROM THE BOARD

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The above arrangements in respect of the forfeiture of the Escrow Fund have been determined by the parties after arm's length negotiations and are considered to be normal commercial terms. The Company considers that it is fair and reasonable for the Escrow Fund to be subject to forfeiture against the Company under certain specific circumstances as stated above, given that (i) the Escrow Fund represents approximately 7% of the Consideration, which is comparable to the deposit payment of about 5% to 10% of the total consideration commonly seen in commercial transactions; (ii) the Acquisition is expected to have a long completion timeframe and the Vendors would have incurred costs in complying with their obligations under the Acquisition Agreement pending Completion, including the costs and expenses to be incurred for implementing the Reorganisation; (iii) the forfeiture against the Company would occur if the Company is the party in default other than where such default is caused by the Vendors; and (iv) the Circular Long Stop Date and the Long Stop Date, being more than five and six months after the date of the Acquisition Agreement respectively, can provide a buffer period for the Company to procure for compliance with its obligations under the Acquisition Agreement to avoid forfeiture of the Escrow Fund.

### **Reorganisation**

As the Assets and the Business are currently held by the Target Company, Telit France and Reorganisation Sellers, pursuant to the Acquisition Agreement, the Vendors and the Target Company shall undertake and complete the Reorganisation prior to Completion. The Reorganisation involves, among other things, the following procedures:

- (a) the incorporation and registration of the New Subsidiaries in Israel, Korea and Germany respectively as wholly-owned subsidiaries of the Target Company;
- (b) the entering into and completion of the Reorganisation Agreement; and
- (c) the entering into of the IP Licence Agreement, the Transitional Services Agreement and other documents relating to the Reorganisation.

It is envisaged that under the Reorganisation Agreement, each of the Reorganisation Sellers will agree to transfer to the Target Company and the New Subsidiaries the Business, the Assets and the Transferring Employees not already owned by the Target Group, excluding the Excluded Business, the Excluded Assets and certain excluded contracts, employees and liabilities of each relevant Reorganisation Sellers. In addition, certain US and Chinese employees of the Reorganisation Sellers will become employed directly by the Group.

In the event that the Reorganisation cannot be fully implemented in the manner as contemplated in the Acquisition Agreement, the Vendors shall propose alternative arrangement that would put the Company in materially the same economic position. The Reorganisation shall be deemed completed upon full implementation of such alternative arrangement except as provided in the Acquisition Agreement.

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## LETTER FROM THE BOARD

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The Target Group has been established and operated as a business unit within Telit Communications since the Telit Group acquired such business from NXP Semiconductors N.V. to enter into the automotive-grade communication module market in 2014. The Excluded Assets and the Excluded Business mainly relate to the IoT business of Telit Group. The Target Group will have, post Reorganisation, a distinct group of customers. In addition, it will have its own R&D facilities and R&D staff for automotive-grade communication modules, customer support functions and management team.

The Target Group will have access to suppliers upon Completion and will be able to operate independently of the Vendors after Completion with the benefit of the Transitional Services Agreement and the IP Licence Agreement. The historical intra-group transactions, which involve intra-group loans and certain intra-group R&D services, will be terminated upon Completion in all material aspects.

Upon completion of the Reorganisation, the Target Company will be the holding company of the Target Group and the Target Group will own the Business, the Assets and the Transferring Employees.

### ***Latest status of the Reorganisation***

The status of the Reorganisation as at the Latest Practicable Date, is briefly set out below:

- (i) the incorporation and registration of the New Subsidiaries in Israel, Korea and Germany respectively as wholly-owned subsidiaries of the Target Company have been completed;
- (ii) the Reorganisation Agreement is in a substantially final form and is expected to be entered into by 31 December 2018 and complete on the business day after each of the Reorganisation Conditions are satisfied;
- (iii) the IP Licence Agreement is in a substantially final form and is expected to be entered into by Completion; and
- (iv) the Transitional Services Agreement is in a substantially final form and is expected to be entered into by Completion.

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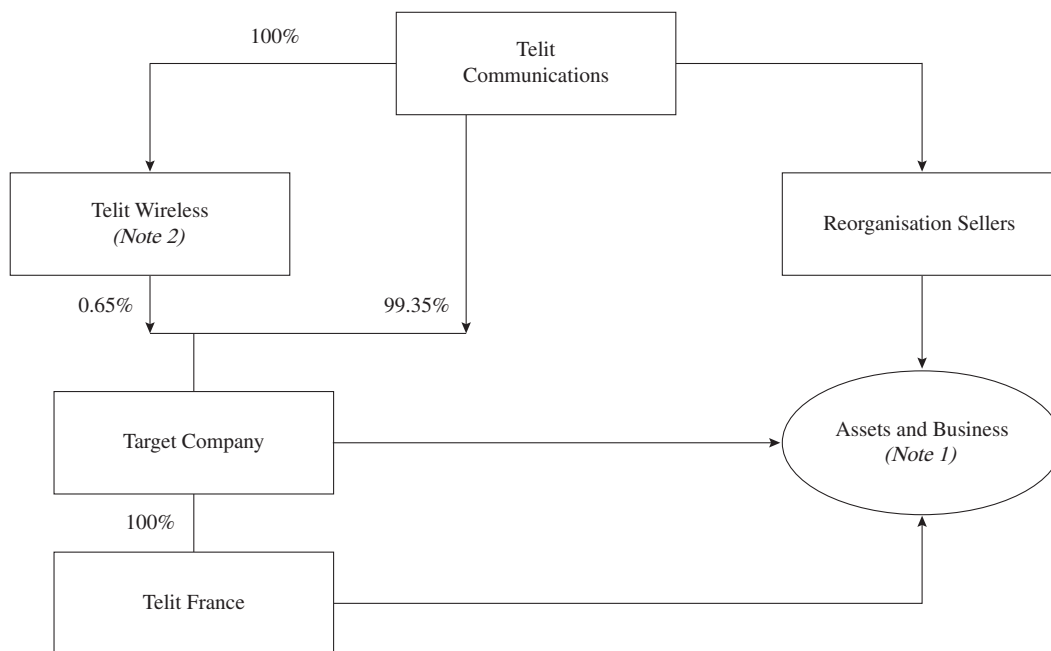
## LETTER FROM THE BOARD

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### Shareholding structure of the Target Group

The following charts illustrate the shareholding structure of the Target Group before and after the Reorganisation and the shareholding structure of the Target Group upon Completion:

*(i) Shareholding structure of the Target Group as at the Latest Practicable Date*



*Notes:*

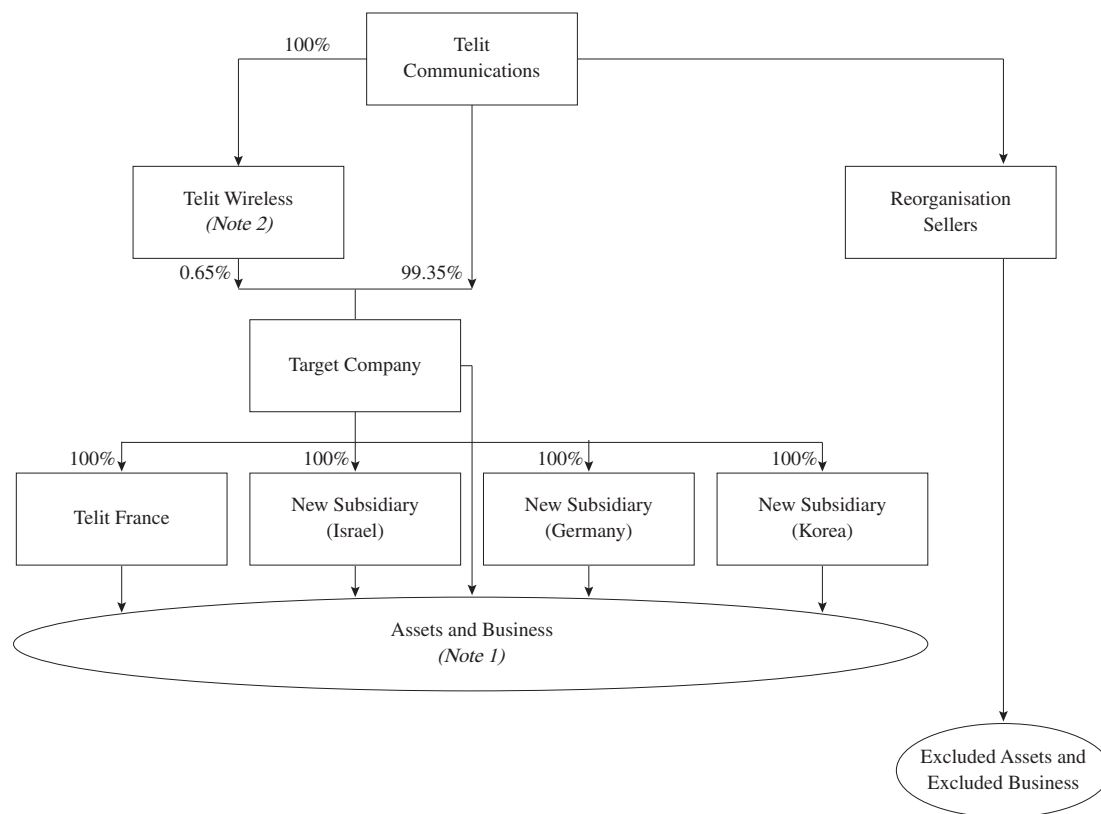
1. The Assets and the Business include the Excluded Assets and the Excluded Business.
2. Telit Wireless is a wholly-owned subsidiary of Telit Communications.

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## LETTER FROM THE BOARD

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**(ii) Shareholding structure of the Target Group immediately upon completion of the Reorganisation but prior to Completion**



*Notes:*

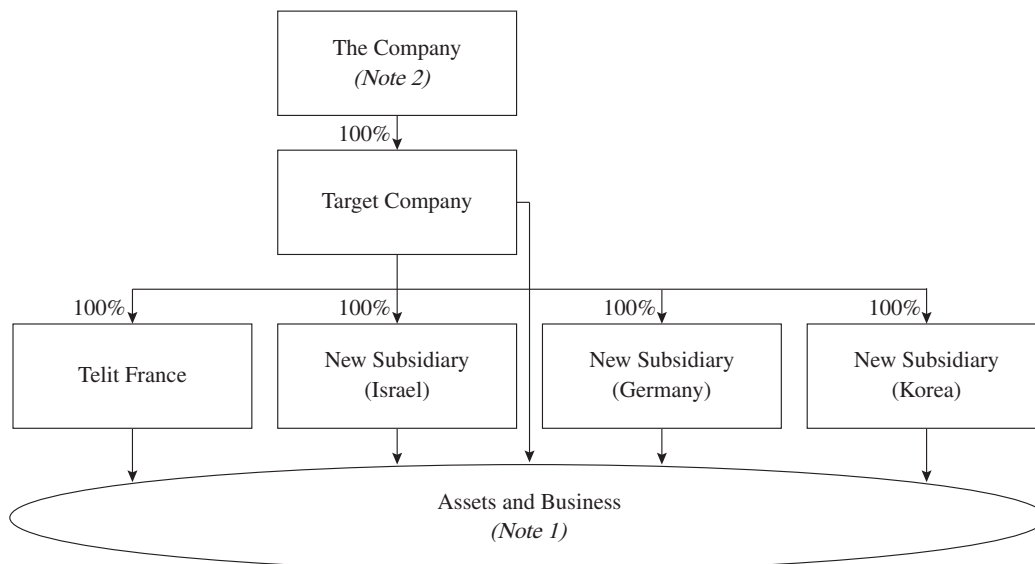
1. The Assets and the Business will not include the Excluded Assets and the Excluded Business.
2. Telit Wireless is a wholly-owned subsidiary of Telit Communications.

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## LETTER FROM THE BOARD

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***(iii) Shareholding structure of the Target Group immediately after Completion***



*Note:*

1. The Assets and the Business will not include the Excluded Assets and the Excluded Business.
2. Certain US and Chinese employees of the Reorganisation Sellers will become employed directly by the Group.

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## LETTER FROM THE BOARD

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### **IP Licence Agreement and the Transitional Services Agreement**

Pursuant to the Acquisition Agreement, the Vendors shall deliver or make available to the Company copies of the IP Licence Agreement and the Transitional Services Agreement on Completion Date.

The IP Licence Agreement will set forth the terms of (i) the licensing of certain intellectual property rights by certain Reorganisation Sellers to the Company and its affiliates and (ii) the licensing of certain technology by the Target Company to the Reorganisation Sellers and their respective affiliates.

The intellectual property rights (“**IPR**”) under the arrangements pursuant to the IP Licence Agreement and the Transitional Services Agreement can be categorised as follows:

- (a) transferring IPR (“**Transferring IPR**”), being IPR owned by any Reorganisation Sellers and exclusively used by the Target Company or any Reorganisation Sellers in connection with the Business which will be transferred to the Target Group;
- (b) retained IPR (“**Retained IPR**”), being IPR retained by the Reorganisation Sellers and mainly used in the existing business of the Vendors (other than the Business) but will also be shared with the Business, which will be retained by the relevant Reorganisation Sellers and licensed to the Company and its affiliates pursuant to the IP Licence Agreement; and
- (c) reverting IPR (“**Reverting IPR**”), being IPR held by the Target Group and mainly used for the Business but will also be shared with the Vendors, which will be licensed to the Telit Communications, the Reorganisation Sellers and their respective affiliates pursuant to the IP Licence Agreement.

Based on the above arrangements, the Transferring IPR will be transferred to the Target Group, and as the Retained IPR, which is mainly used in the existing business of the Vendors and which is also used in the Business, will be licensed to the Company and its affiliates under the IP Licence Agreement, the Target Group will also gain access to the Retained IPR pursuant to the IP Licence Agreement. Pursuant to the IP Licence Agreement, the licenses for the Retained IPR will be granted to the Company and its affiliates on a non-exclusive, perpetual, non-assignable (except as specified therein), sub-licensable (except as specified therein), worldwide and royalty-free basis. The IP Licence Agreement may not, according to its terms, be terminated by any party thereto after the Completion Date. Based on the Acquisition Agreement and the licensing arrangements under the IP Licence Agreement, the IPR owned by the Vendors and essential to the Business will be transferred to or licensed to the Target Group.

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## LETTER FROM THE BOARD

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The Retained IPR mainly consists of software, database and know-how (including certain generic software source codes and know-how) which are unregistered rights held in copyright and rights to confidential information and trade secrets, which are mainly used by the existing businesses of the Vendors (other than the Business), but may be used by the Target Group for the Business in the “design-in” phase relating to the development of new products from time to time.

Pursuant to the IP Licence Agreement, (i) the Company will be given copies of the Retained IPR (to the extent not otherwise delivered in connection with the transactions contemplated by the Acquisition Agreement) at or prior to Completion; (ii) the Company will be granted a perpetual and irrevocable licence to use such Retained IPR; and (iii) the Company shall take all necessary steps to record itself and its affiliates as the licensee of any registered Retained IPR at the relevant intellectual property registries around the world, if and as required under the applicable rules, and the Reorganisation Sellers should provide assistance as may be reasonably necessary to the Company for such registration.

Further, the Company considers that:

- (i) the parties to the IP Licence Agreement will have the commercial interests to comply with the terms of the IP Licence Agreement with a view to enjoying their respective rights as licensee of the Retained IPR or the Reverting IPR (as the case may be) thereunder;
- (ii) as the Retained IPR will be mainly used by the Reorganisation Sellers, the Reorganisation Sellers will have the commercial interests to maintain and defend their rights under the Retained IPR where necessary;
- (iii) the Company understands that it is a common industry practice for different market stakeholders which engage in R&D activities to share the use of relevant IPR through licensing arrangements, usually involving the payment of royalty fee; and
- (iv) the Target Group may continue to enjoy the use and benefit of the Retained IPR without having to pay any royalty fee or to incur extra costs and efforts that may be required to maintain and defend the Retained IPR as the registered owner.

Based on the above, the Company understands that the risk that it will cease to have access to any of the Retained IPR will be minimal; and it considers that the licensing arrangements set out above are commercially fair and reasonable and the Target Group can operate independently after Completion.

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## LETTER FROM THE BOARD

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The Transitional Services Agreement will set forth the terms in relation to the provision of certain information technology services and other transitional services by certain Reorganisation Sellers to the Target Group.

### **Completion**

Completion will take place on the Business Day after the satisfaction or (if applicable) waiver of all the conditions precedent to the Acquisition Agreement as set out under “Conditions Precedent” above.

Upon Completion, the Target Company and its subsidiaries will become wholly-owned subsidiaries of the Company, and the financial statements of the Target Group will be consolidated into the financial statements of the Group.

The Vendors shall ensure that a draft of the Completion Accounts (“**Draft Completion Accounts**”) is prepared and delivered to the Company on or before the date falling 15 Business Days after Completion. The Draft Completion Accounts will be deemed to be agreed by the Company on the date falling 30 days after the Company’s receipt of the Draft Completion Accounts unless during such period it gives a disagreement notice (“**Disagreement Notice**”) to the Vendors. If the Company and the Vendors are unable to resolve the matters raised in the Disagreement Notice and agree a final form of the Draft Completion Accounts within 12 Business Days after the date on which the Vendors receive the Disagreement Notice, the Company and the Vendors shall appoint an independent chartered accountant (“**Independent Accountant**”) to deliver a determination of the outstanding matters in the Disagreement Notice and a revised Draft Completion Accounts. The Draft Completion Accounts as agreed or deemed agreed between the Company and the Vendors, or as revised and determined by the Independent Accountant will be final and binding on the parties and will constitute the Completion Accounts for the purposes of the Acquisition Agreement.

### **Voting undertakings**

As requested by the Vendors, under the Acquisition Agreement, the Company is required to procure for the irrevocable undertakings from the Relevant Shareholders (the “**Undertakings**”) to the effect that each of the Relevant Shareholders will, among other matters, exercise or procure the exercise of all voting rights in respect of all the Shares of which such Relevant Shareholder is the registered holder and/or beneficial owner as at the record date for determining Shareholder’s entitlement to vote at the EGM in favour of the relevant resolution(s) at the EGM for approving the Acquisition Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Relevant Shareholders hold in aggregate 673,208,802 Shares, representing approximately 50.9% of the issued share capital of the Company.

The Company has been a participant in a competitive multi-stage tendering process held by the Vendors in respect of the Acquisition for multiple months since December 2017. On 17 April 2018, the Company entered into a subscription agreement with the Relevant Shareholders (other than Tuspark Venture) in relation to the subscription of new Shares and convertible bonds (the “**Subscription Agreement**”) as set out in the Company’s announcement dated 17 April 2018 and the Company’s circular dated 23 May 2018 (the “**Subscription**”). On 7 June 2018, an extraordinary general meeting of the Company was convened and the Shareholders approved, among others, the Subscription. Up to that stage, the pertinent terms of the Acquisition were open to ongoing non-exclusive negotiations between the Company and the Vendors and there was no indication, knowledge nor certainty that the Company would be invited to the final bidding process.

After the Acquisition was approved by the Board on 21 June 2018, the Relevant Shareholders were approached by the Company in relation to the Undertakings on a confidential basis.

The Company confirms that the provision of the Undertakings had not been contemplated at the time when the Subscription was entered into by the Company and the applicable Relevant Shareholders.

At the date of the Initial Announcement the Company had obtained the Undertakings from all of the Relevant Shareholders. Save for providing the Undertakings to facilitate the Acquisition, none of the Relevant Shareholders is involved in or has material interest in the Acquisition, and none of them has received any benefit from the Group in relation to the Undertakings. To the best of the Directors’ knowledge, information and belief, after having made all reasonable enquiries, (i) the Relevant Shareholders are independent of and do not have any relationships (business or otherwise) with the Vendors and the Target Group, and the Relevant Shareholders are not required to abstain from voting at the EGM; and (ii) the Relevant Shareholders have agreed to provide the relevant Undertakings because they consider that the Acquisition will be in the interest of the Company and the Shareholders.

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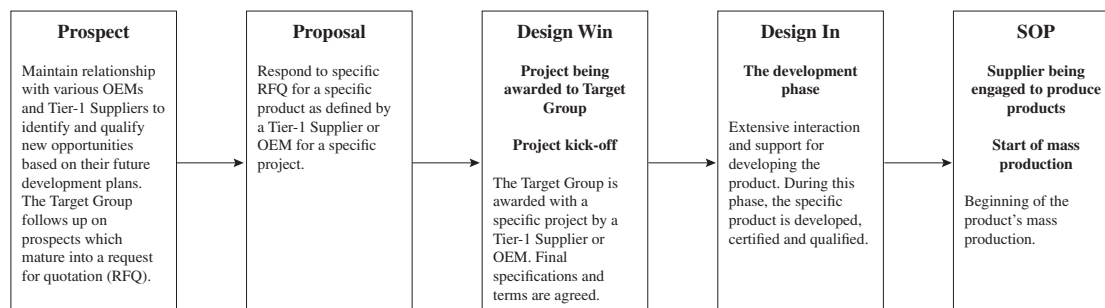
## LETTER FROM THE BOARD

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### 3. INFORMATION ON THE TARGET GROUP

The Target Group is one of the major suppliers of automotive-grade wireless connectivity modules. The Business was launched by Telit Communications as a separate business unit in 2014, along with the acquisition of Automotive Telematics On-board unit Platform (ATOP) business, being R&D and sale of automotive-grade communication modules from NXP Semiconductors N.V.. Its product portfolio covers different network technologies from 3G to LTE-A and offers various matching regional requirements and frequency bands. The Target Group has a growing, diversified blue-chip customer base of global leading car OEMs and Tier-1 suppliers of car manufacturers (“**Tier-1 Suppliers**”).

Similar to the business model of the Group’s ADAS business, at the prospect and proposal phases, the Target Group maintains relationship with OEMs and Tier-1 Suppliers, to identify new business opportunities, follow up on prospects that mature into Request for Quotations (RFQs), respond to specific RFQ for a specific product as defined by a Tier-1 Supplier/OEM for a specific project. Once a specific project is awarded to the Target Group, the project becomes a “design-win”, where detailed specifications and terms of the project will be agreed between the Target Group and the Tier-1 Supplier/OEM. The project will then progress into the “design-in” phase, where extensive interaction and support will be required to assure that the module is developed, certified and qualified. The project will thereafter progress into the “Start of Production (SOP)” phase, where mass production will commence. It typically takes around three years to turn a RFQ into a SOP for mass production. An illustration of the Target Group’s business model is set out in the diagram below:



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## LETTER FROM THE BOARD

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The Target Group does not have its own production facilities and outsources the electronic manufacturing process to a leading semiconductor packaging and testing services provider. Other major suppliers of the Target Group include suppliers of chipsets and auto-parts components, which are key raw materials procured by the Target Group for use by the outsourced electronic manufacturing service provider in the manufacturing process.

The Target Group has a track record of successful product implementation with over 5 million total product shipments of automotive-grade communication modules as of the end of 2017. The Target Group's modules were integrated in the vehicles of many global leading automotive OEMs such as Audi, BMW, Ford, Hyundai, Volkswagen and Porsche, Honda, as well as local OEMs such as Great Wall, Chery and GAC Group in China via its Tier-1 Integrator customers such as Continental, Bosch, Mobis, Visteon and Clarion. The Target Group also supplies automotive-grade communication modules directly to OEM such as Tesla.

From 2015 to 2017, the Target Company has successfully won various new programmes from existing and new customers. The business of the Target Group has penetrated into the Asia-Pacific region. As a result, the Target Group incurred R&D expenses for the new wins during the design-in phase as the product samples and prototypes have to be developed, certified and qualified in 2016 and 2017. The Target Company recorded a higher revenue for the year of 2017 as such new wins only commenced mass production in 2017. Based on the audited combined management accounts of the Target Group for the year ended 31 December 2017, the Target Group recorded revenue of approximately US\$63.2 million (equivalent to approximately HK\$495.8 million) in 2017, representing a CAGR of approximately 42.1% from 2015, and net assets value as at 30 June 2018 of approximately US\$35.2 million (equivalent to approximately HK\$276.7 million). The Target Group currently has a total of 110 employees, and has R&D centers in France, Belgium and Israel, and five sales centers in Germany, France, the USA, the PRC and Korea. The Target Group has superior in-house R&D capabilities and strong technology competence in cellular modules with an experienced R&D team which accounts for more than 75% of the employees of the Target Group.

In terms of licences and regulatory approvals, the Target Group is required to obtain product certification on wireless communication modules in different regions. The Target Group has obtained the certification from regulatory bodies including without limitation, (i) Global Certification Forum (GCF) and Radio Equipment Directive (RED) in Europe, (ii) Personal Communications Service Type Certification Review Board (PTCRB) in North America, (iii) China Compulsory Certification (CCC) and State Radio Regulatory Commission of PRC (SRRC) in China, (iv) Japan Approvals Institute for Telecommunications Equipment (JATE) and Telecom Engineering Center (TELEC) in Japan and (v) Korea Communications Commission (KCC) in Korea.

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## LETTER FROM THE BOARD

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Though IoT and automotive grade modules are both broadly based on wireless communication technologies, communication modules for line-fit automotive use, i.e. automotive grade modules, have its unique design and functioning features that meet various automotive specific standards, including without limitation, the ability to function properly in extremely low and high temperatures, the reliability of communication and the integration of other functions and features such as positioning, security function and eCall (being a system that provides an automated message to the emergency services following a road crash which includes the precise crash location).

Based on information provided by the Vendors, as compared to the automotive grade modules of the Target Group, the IoT services of Telit Group serve the needs of other industries and markets such as retail, healthcare and hospitality, manufacturing, logistics and utilities. Consumer IoT relates to connected devices in the consumer market such as security and surveillance, smart homes and smart building and energy systems, whereas industrial IoT enhances manufacturing and industrial processes by linking machines and devices. Based on information provided by the Vendors, the Target Group also has a distinct group of customers, its own R&D facilities and R&D staff, separate management team, and a distinct set of automotive application specific IPRs, patents and know-hows.

The Company plans to continue expanding the Target Group's customer base, in particular in China, being the world's largest vehicle sales market, and strengthen the R&D and promotion of new LTE/V2X/5G modules and solutions. In this connection, the Group has met the major existing customers of the Target Group which are global Tier-1 suppliers and OEM customers in the automotive connectivity market with an aim to continue to build upon such existing relationships, and has also been reached by potential customers from China, Japan, Russia, India, etc. In China, the Group is implementing the project of building the pilot base of the "National Intelligent Connected Vehicle Cloud Control Platform" in Shanghai, the first phase of which occupies a 25 square-kilometer area located in Jiading District, Shanghai, which will be completed by May 2019. In addition, such project will also involve the installation of roadside equipment including millimeter wave radar, V2X and cameras for city road of 47.8 kilometers and highway of 20 kilometers in length. With reference to the Target Group's plan to expand its product portfolio by offering roadside V2X equipment and its R&D efforts in developing V2X/5G modules, the Company believes that such project and other projects carried out by the Group's "Cloud Control" business will have significant synergies with the businesses of the Target Group after the Acquisition. The Target Group and its existing customers will benefit from access to new marketing channels to tap into the China market through collaboration with the Group's ADAS segment to provide full range of products to the major automotive customers in China as well as developing new types of products in V2X/5G modules through collaboration of research and development teams.

The Company expects that main capital expenditure to be incurred by the Target Group will be the testing equipment to be placed onto the contracted manufacturer's site. Notwithstanding the above, the Company does not expect the Target Group to incur significant capital expenditure in 2019 and 2020 in relation to the above strategies/plans and anticipates that the Target Group's free cash flow would be able to support the operating expenditure required for carrying out the above strategies/plans.

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## LETTER FROM THE BOARD

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The Target Company is a company incorporated in the Kingdom of Belgium with limited liability in February 2014 and is principally engaged in the development, manufacture and sale of line-fit wireless connectivity modules that are supplied to global leading car OEMs and Tier 1 Suppliers.

Telit France is a company incorporated in France with limited liability in March 2006 and is principally engaged in the development of linefit wireless connectivity modules that are supplied to global leading car OEMs and Tier 1 suppliers of car manufacturers. Telit France is a wholly-owned subsidiary of the Target Company as at the Latest Practicable Date.

Set out below is certain financial information of the Target Group based on the audited combined financial information of the Target Group which have been prepared based on International Financial Reporting Standards:

	For the year ended 31 December					
	2015		2016		2017	
	<i>US\$ million</i>	<i>equivalent HK\$ million</i>	<i>US\$ million</i>	<i>equivalent HK\$ million</i>	<i>US\$ million</i>	<i>equivalent HK\$ million</i>
Revenue	31.3	245.5	31.9	250.6	63.2	495.8
Gross profit	9.7	75.8	9.6	75.3	17.7	139.0
EBITDA	4.3	34.0	3.0	23.2	9.4	73.7
Net profit/(loss) before taxation	1.3	10.6	(1.8)	(14.1)	3.1	24.1
Net profit/(loss) after taxation	2.7	21.2	(0.9)	(7.2)	3.3	26.2

	For the six months ended 30 June			
	2017		2018	
	<i>US\$ million</i>	<i>equivalent HK\$ million</i>	<i>US\$ million</i>	<i>equivalent HK\$ million</i>
Revenue	25.7	201.7	34.2	268.3
Gross profit	8.8	69.1	7.2	56.4
EBITDA	5.4	42.7	3.0	23.8
Net profit/(loss) before taxation	2.6	20.2	(1.3)	(10.2)
Net profit/(loss) after taxation	2.9	22.9	0.1	0.5

	As at 31 December 2017	
	<i>US\$ million</i>	<i>equivalent HK\$ million</i>
Intangible assets – internally generated	24.3	191.0
Equipment	5.9	46.2
Inventories	2.9	22.7
Net asset value	34.7	272.7

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## LETTER FROM THE BOARD

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	As at 30 June 2018	
	US\$ million	equivalent HK\$ million
Intangible assets – internally generated	26.0	204.1
Equipment	4.9	38.7
Inventories	5.5	43.4
Net asset value	35.2	276.7

Please refer to (i) Appendix III to this circular for the accountants' report on the Target Group for the three years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) Appendix V to this circular for the management discussion and analysis on the Target Group for the three years ended 31 December 2017 and the six months ended 30 June 2018.

### **The Target Group's strengths**

The success of the Target Group's business and its ability to expand in the automotive communication industry are attributable to the following strengths:

#### ***Comprehensive product portfolio covers different network technologies from 2G to LTE***

With deep understanding of automotive communications and having long history of technical expertise in-house, the Target Group offers broad and innovative product portfolio with specifications matching all major regions. Its product offerings include:

- Modules based on 2G, applications including phone calls, text messaging
- Modules based on 3G, applications including traffic parking update, stolen vehicle tracking, eCall/ERA-Glonass
- Modules based on 4G LTE, applications including over-the air updates, video streaming services, predictive maintenance, ADAS, High speed connectivity

The Target Group's ongoing relationships with various OEM and Tier-1 Suppliers enable it to develop automotive communication modules that meets its customers' specific requirements in terms of functionality and design while also adhering to the strict requirements in the automotive industry. The Target Group also works closely with customers in each stage of a product's life cycle, including proposal, design-in and "Start of Production (SOP)", as well as after-sales customer support.

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## LETTER FROM THE BOARD

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### ***Strong in-house R&D capabilities with highly advanced technology***

The Target Group meets the high requirements of automotive industry for wireless module design through more than 10 years of know-how with continuous development of strong in-house R&D capabilities. The Target Group has expertise in development, certification, and qualification of automotive grade communication modules covering 2G/3G/LTE and V2X/5G technologies, as well as in-house developed production test methodology and equipment for cost optimized, high volume and low-defect rate automotive quality production.

The core activity of the Target Group is its research and development operation which consists 83 employees in 3 different R&D centers located in Israel, France and Belgium, and 12 employees which support the R&D activity including application engineering, product manager and quality assurance. There are four departments related to R&D operation, which are application and modem software development, hardware development, verification and validation, production testing. As of the Latest Practicable Date, the Target Group had over 109 patents registered in 16 jurisdictions. In addition, the Target Group is the first module maker to launch an LTE automotive module with Intel and the sole automotive module supplier offering both Intel- and Qualcomm-based LTE modules.

Based on customers' specific requirements functionality and design, the Target Group works closely and proactively with its customers including developing prototypes and samples, certifications by regulatory entities in the countries in which the product will be marketed and further qualifications are performed. By extensive direct interactions with engineers from customers and obtaining feedbacks during different stages of the project cycle, the Target Group is able to complete and deliver the application that fulfil its customers' specific requirements. The Target Group also has dedicated support teams to provide worldwide customers with prompt onsite support.

V2X communication is essential for the safety of autonomous driving vehicles or vehicles with ADAS. 5G is the next generation of wireless networks and the key to transmitting larger amounts of data more reliably, with lower latency and at faster speeds. 5G has the ability to enable fully autonomous vehicles that can connect to the network in real time. According to the CCID Report, the global market size of intelligent connected vehicle was expected to increase to US\$47.6 billion in 2018 from US\$41.5 billion in 2017, and the market size has the potential to reach US\$100 billion. The global automotive connectivity modules market is projected to grow from approximately US\$12.7 billion in 2017 to approximately US\$28.2 billion in 2020 at a CAGR of approximately 30.4%. The Target Group has the internal capabilities and is currently engaged in V2X/5G activities, which will secure its technological leadership and drive its long-term growth.

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## LETTER FROM THE BOARD

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The Target Group has plans to expand its product portfolio by offering 4G-V2X for vehicles and roadside V2X equipment and is currently engaged in V2X/5G activities. The Group had net current assets of HK\$172.2 million and HK\$226.2 million as of 31 December 2017 and 30 June 2018, respectively. Taking into account the Target Group's cash flows from operating activities, as well as the Company's available bank loans and other borrowings, the Company believes that the Target Group will have sufficient available working capital for the research and development activities.

### ***Established and expending customer base with proven track record***

The Target Group has established strong relationships with many of the world's top Tier-1 Suppliers, as well as leading OEMs with a track record of successful product implementation with over 5 million total product shipment of automotive-grade communication modules. The Business was launched by Telit Communications as a separate business unit in 2014, along with the acquisition of Automotive Telematics On-board unit Platform (ATOP) business, being R&D and sale of automotive-grade communication modules from NXP. The Target Group's customer based has been expanding since its acquisition from NXP. As at the Latest Practicable Date, the Target Group had been supplying automotive communication modules to more than 17 customers including Continental, Tesla, Bosch, Mobis, Desay, Neusoft, Visteon etc. The Target Group's modules were integrated in the vehicles of many global leading automotive OEMs such as Audi, BMW, Ford, Hyundai, Volkswagen and Porsche, Honda, as well as local OEMs such as Great Wall, Chery and GAC Group in China. With established customer base and diverse end-user OEMs, the Target Group understands its customer needs and expands business worldwide, especially into the APAC region after being acquired by the Group.

### ***Excellent management and technical team with extensive experience in automotive industry***

The Target Group has a professional and experienced international management team. Dr Dirk Reimer, General Manager and Head of Sales and Marketing, joined the Target Group in 2014, following the acquisition of NXP's Automotive Telematics business unit, where he served as the Automotive Marketing & Business Development Telematics Director. Mr Guy Shochet, Head of Automotive R&D, joined the Target Group in 2014 as head of automotive R&D who is responsible for the development of automotive cellular modules. Prior, Guy was with Marvell for 9 years, serving various program product and customer management roles for cellular processors and modem products.

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## LETTER FROM THE BOARD

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Management team of the Target Group has an average of over 20 years of experience in the automotive industry. Their deep knowledge and experience in industry and market understanding will make the Target Group well-positioned to compete in the automotive communication industry.

### **Strategy**

The Group is dedicated to developing integrated ADAS and autonomous driving (AD) systems that feature sensor data fusion, reinforcement learning as well as V2X and vehicle cloud connectivity solutions. The Acquisition represents a significant milestone to expand the Group's business into the rapidly growing vehicle connectivity market. The Group aims to strengthen its market position in the automotive communication industries and plans to accomplish this goal by pursuing the following strategies:

#### ***Deeply involved in the top-level design of national ICV development strategy***

As China's leading tier-1 supplier of camera-based advanced driving assistance system (ADAS) solutions and the leading provider of intelligent connected vehicle (ICV) cloud control solutions, the Group has been actively implementing China's strategy for ICV. In March 2018, the Group united leading enterprises of the industry to establish the National Innovation Center of ICV, responding to the Ministry of Industry and Information Technology's promotion. The Group is also actively participating in the top-level design of the future mobility system and the development of the industry under supervision of the National Development and Reform Commission.

Follow the national intelligent and connected vehicle (ICV) development strategy, the Group is the leader in developing "National Cloud Control Platform for ICVs", which will create significant demand for next generation, extra reliable, low latency and highly secured vehicle connectivity and networking solution. Combining the Target Group's capabilities, the Group will be able to define the development roadmap of vehicle connectivity system and provide cutting-edge connectivity solutions at "systems on chip" (SoC) level, which will improve the influence and market share of the Group on ICV industry.

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## LETTER FROM THE BOARD

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### ***Expand business in China markets and reform the supply and demand relation with OEMs***

Based on the Group's existing sales and service network in China, the Target Group will gain extensive market access in China. The development trend of automotive wireless communication module technology in China shows that 5G and V2X will be the core of ICV, and the Target Group has made progress on developing V2X and 5G technology. According to CCID Report, the scale of automotive communication module market in China has reached RMB1.7 billion in 2017, and was expected to increase to RMB5.5 billion in 2020 with a CAGR of approximately 47.5%. From 2015 to 2017, the majority of the Target Group's revenues were derived from developed markets such as EMEA and Americas, which together accounted for approximately 84.1% of the Target Group's total revenues in 2017. The global presence, strong customer relationships and technological expertise position the Target Group well to capitalize on future growth in these emerging markets. On the other hand, the Group is the leader in developing "National Cloud Control Platform for ICVs" in China, which could bring first-hand product and technology requirements to the Target Group to create a competitive advantage in the future product development.

The Target Group can bring the Group extensive market access to global Tier-1 Suppliers of car manufacturers and OEMs, creating significant cross-selling opportunities. Since the Target Group has already started to provide products to Tesla directly, based on such business model, the Target Group will expand its business in emerging markets by offering automotive communication modules that are tailored to different emerging markets' product performance and price requirement. We believe the Target Group's direct interface to OEM will reform the supply chain of automotive wireless communication model industry. Such kind of business model will be implemented with Chinese electronic vehicle OEMs and a new supply and demand relationship will be formed in the future.

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## LETTER FROM THE BOARD

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### ***Focus on R&D and Strengthen technological leader position***

The Target Group has continuously developed its product offering ahead of mass market. The Target Group prioritizes its research and development efforts and is currently engaged in V2X/5G activities, which will secure its technological leadership and drive its long-term growth. The Group decides to establish a research and development centre in China, which will focus on technology development with the Target Group's oversea research team and local product differentiation development to enhance its product development capabilities and technologies. Based on the support from National Innovation Center of ICV, research teams from the Target Group and the Group will work together focusing on the fusion of automotive connectivity models, next generation sensors, next generation vehicles computing platforms, L4/L5 software, ADAS solutions and cloud control platform, and expanding the product functions and application scenarios to achieve high-end ICV solutions. Also, the Target Group will work closely with multiple semiconductor chipset makers, keeping it up-to-date with the features of the most recent connectivity technology and allowing it to use the most recent and suitable chipsets to design its modules.

### **Industry overview**

#### ***Intelligent connected vehicle industry overview***

Intelligent connected vehicles are defined as a new generation of vehicles equipped with advanced built-in sensors, controllers, actuators and other devices and integrated with modern communication and network technology, which are able to achieve the exchange and sharing of information between vehicles and everything (vehicles, infrastructure, people, cloud, etc.), while functioning in complex environmental perception, intelligent decision-making and collaborative control, thus, it is expected to be “safe, efficient, comfortable and energy-saving” and to take the place of human drivers ultimately.

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## LETTER FROM THE BOARD

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The key technology of intelligent connected vehicles covers four synergistic aspects, i.e. sensors (perceptual system), information communication (connectivity system), processors and algorithms (decision-making system) and vehicle control (execution system). The perceptual system mainly includes products such as a camera, millimeter-wave radar, laser radar, position finders which are used for physical environment perception and self-diagnosis by the vehicles. Connectivity system, serving as a bridge between vehicles and everything to establish intelligent connectivity, mainly includes products such as line-fit communication module and cloud control platform software, where the LTE-V/5G technology based V2X enables the vehicles to communicate with all potentially connected surrounding objects, while the cloud control platform software can realize the integration of fundamental data about the vehicles, infrastructure and traffic environment, thereby enhancing the driving safety and transportation efficiency and promoting transportation infrastructure intelligentisation. The decision-making system, being the center part in processing and control of vehicle data, includes vehicle chips and a built-in computing platform. It primarily processes the information collected by the perceptual system and the cloud control system. The execution system mainly includes the bottom control system of vehicles and the built-in operation system with the integration of a built-in information terminal and the achievement of network function.

Intelligent driving in China is divided into five levels, namely, Driving Assistance (DA), Partial Automation (PA), Conditional Automation (CA), High Automation (HA) and Full Automation (FA), based on the U.S. SAE level generally accepted in the industry and the complexity of road traffic conditions in China.

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## LETTER FROM THE BOARD

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### Intelligent Levels of Intelligent Connected Vehicles

Intelligent Level	Name of Level	Definition	Control	Monitor	Response to Failure	Typical Operating Conditions
1(DA)	Driving Assistance	Provide support to operation on steering or acceleration/ deceleration based on driving environment information. Other operations are conducted by driver.	Driver and System	Driver	Driver	Normal driving within the lane, road on highway without lane intervention, parking conditions.
2(PA)	Partial Automation	Provide support to more than one operation on steering and acceleration/deceleration based on driving environment information. Other operations are conducted by driver.	Driver and System	Driver	Driver	Highway and inner-city road without lane intervention, change of lanes, round-the-island road, congestion, car-following and other conditions.
3(CA)	Conditional Automation	All the driving operations are completed by the system, but the driver needs to intervene if the system requires.	System	System	Driver	Normal driving conditions of highway, inner-city road without intervention.
4(HA)	High Automation	All the driving operations are completed by the system. The system will request for response under specific circumstances. The driver can ignore the system request.	System	System	System	All the conditions of highway, inner-city road with lane intervention.
5(FA)	Full Automation	All the driving operations are completed by the system under all road conditions, with no need for the driver to intervene.	System	System	System	All operating conditions.

*Data source: “2017 Guidelines for the Establishment of a National Standard System of Connected Vehicle Industry (Intelligent Connected Vehicles)”, CCID CONSULTING, February, 2018*

According to the “2017 Guidelines for the Establishment of a National Standard System of Connected Vehicle Industry (Intelligent Connected Vehicles)” issued by the Ministry of Industry and Information Technology, China has formulated short-term, medium-term and long-term development plans for intelligent connected vehicles. In the short term, the application of Partial Automation (PA level) focusing on autonomous environmental perception and supplemented by information connectivity services will be promoted. In the medium term, the connectivity-based environmental awareness will be emphasized and established to achieve conditional automation (CA level) under complicated operation conditions. In the long term, V2X collaborative control and intelligentisation technology based HA/FA driving function will be promoted. It is expected that, from 2015 to 2020, the market share of DA and PA vehicles may reach approximately 50%; from 2020 to 2025, the market share of DA and PA vehicles may remain steady, while that of HA vehicles is expected to be approximately 15%; and from 2025 to 2030, the market share of FA vehicles is expected to be approximately 10%.

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## LETTER FROM THE BOARD

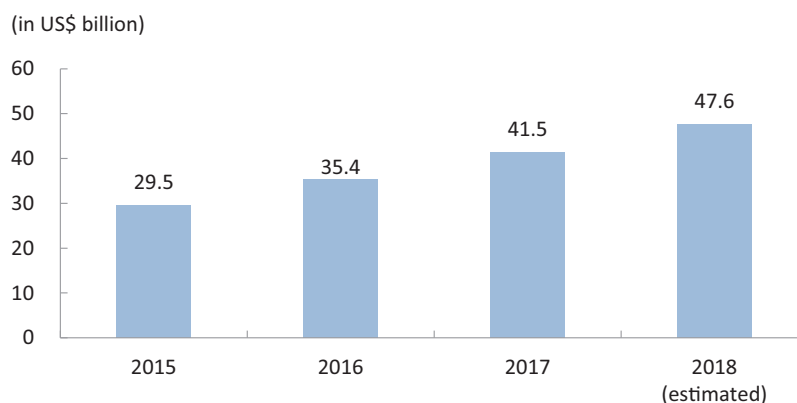
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### Overview of Intelligent Connected Vehicle Industry

Set forth below is a brief overview of the intelligent connected vehicle industry based on the CCID report.

The total market size of the global intelligent connected vehicle industry was approximately US\$29.5 billion in 2015 and it was expected to reach US\$47.5 billion in 2018 with a compound average growth rate of 17.2%. The market size maintained steady growth. It is expected to increase to US\$47.58 billion in 2018. In the future, the global intelligent connected vehicle industry has the potential of developing into a market of US\$100 billion.

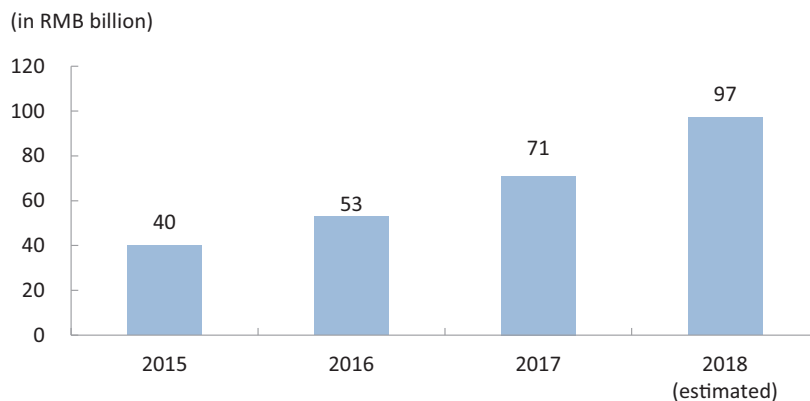
### Global Intelligent Connected Vehicle Market



Source: CCID

According to the CCID report, the total market size of China intelligent connected vehicle industry was approximately RMB71 billion in 2017, which is expected to reach RMB200 billion in 2020, representing a CAGR of approximately 41.2%.

### Intelligent Connected Vehicle Market in China



Source: CCID

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## LETTER FROM THE BOARD

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### **Global automotive connectivity market overview**

Automotive communication technology can be classified into four major applications, namely in-car wireless communication, vehicle-to-vehicle wireless communication, vehicle-to-external facilities wireless communication, vehicle-to-external network wireless communication.

Vehicle-to-everything has been gradually developing with the evolution of communication technology. Initially, roadside communication technology has marked the beginning of the new era of vehicle-to-external communication. With the gradual development of cellular technology from 2G to 3G and 4G, the content of built-in navigation, entertainment, real-time traffic information has been enriched. The emergence of DSRC based on 802.11p technology along with the establishment of standard long-term evolution vehicle (LTE-V) technology is leading the vehicles to gradually enter into a new era of intelligent vehicles. In the future, with the development of intelligentisation, automotive communication technology will evolve into V2X, which mainly includes low-latency and high-precision DSRC technology and cellular network-based LTE-V2X technology.

LTE-V2X represents the V2X mobile wireless communication technology that has evolved from LTE-based mobile communication technology, China is vigorously promoting the application of LTE-V2X.

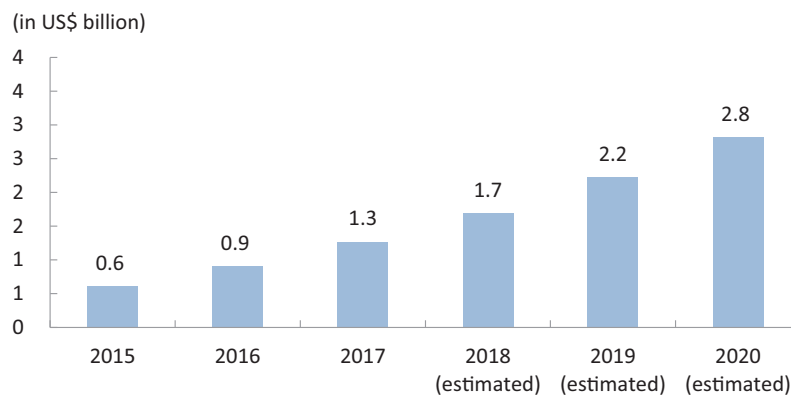
According to the CCID report, it is expected that by 2020, the market size of global automotive communication modules will reach US\$2.8 billion in 2020 from US\$1.3 billion in 2017, representing a CAGR of approximately 30.4%.

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## LETTER FROM THE BOARD

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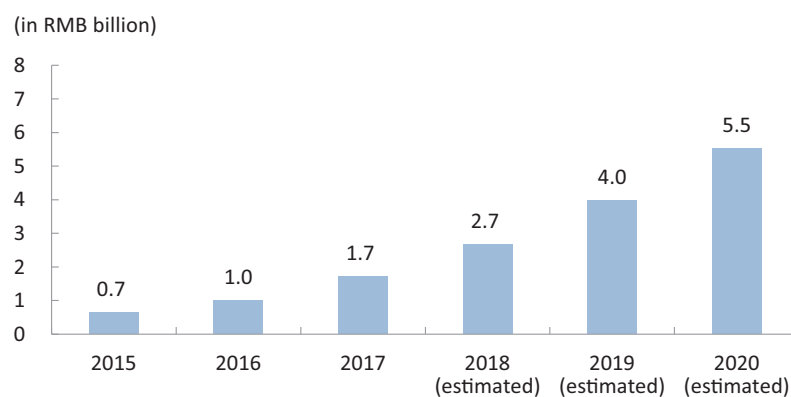
### Global automotive connectivity market



Source: CCID

According to the CCID report, under the rapid development of intelligent connected vehicles, the penetration of vehicle connectivity has been on a rise year by year. 33% of new car, approximately 10 million cars, sold in China in 2017 were connected vehicles, which bringing 11.5 million sets of increment for the wireless communication module market. In addition, the existing 2G terminal upgraded to 4G terminal in the saturated market has already reached over 10 million annually. The scale of automotive communication module market in China has reached RMB1.7 billion in 2017, and was expected to increase to RMB5.5 billion in 2020 with a CAGR of approximately 47.5%. In the future, with the upgrade of domestic consumption and further penetration of intelligent connected vehicles, the Chinese domestic automobile market will continue to grow at a moderate and high speed and the massive market space will create a strong demand and momentum for the automotive communication module market.

### China automotive connectivity market



Source: CCID

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## LETTER FROM THE BOARD

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### **Future market trends of the automotive connectivity industry**

#### ***1. Automotive connectivity is essential for Intelligent Connected Vehicles***

Automotive connectivity is a major feature of intelligent connected vehicles, which facilitates information exchange between in-car network and out-car network through intelligent, information and communication technologies, so as to solve issues in information exchange amongst people, vehicles and the external environment. As is predicted by CCID Consulting in the CCID Report, the penetration rate of intelligent connected vehicles in China is expected to reach 60% by 2020. With the rising demand for network connection from sensing terminals such as cameras and radars, to wireless transmission like Bluetooth and cellular network and then to the cloud platform, the development of communication technology is playing an increasingly important role in supporting the automotive industry.

#### ***2. Auto-grade communication module embraces a broad market prospect and the line-fit automotive system will gradually become mainstream***

Civilian automotive systems can be classified into two main types: line-fit automotive systems and dealer-fit automotive systems. Line-fit automotive systems must meet the auto-grade requirements and being configured by OEMs, while dealer-fit automotive systems are purchased by car dealers or consumers and most of them are not certified by OEMs. Due to the rising consumption power and the enhanced demand for safe and comfortable driving experience, along with the advancement of mobile Internet technology and 4G LTE technology, car-terminal entertainment and network connectivity have been strengthened, which improves user experience and accelerates the telematics market. In the future, OEMs will expand the coverage of models with line-fit automotive systems which will become the mainstream in the market. According to the development goal of the PRC intelligent connected automobile industry, much room remains for the market and the automotive communication module market conforming to auto-grade applications is expected to welcome a broad prospect.

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## LETTER FROM THE BOARD

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### ***3. V2X technology is becoming a new highlight of vehicle-to-everything***

V2X technology, which is mainly designed for information exchange between “vehicle and external environment”, is becoming a new highlight of vehicle-to-everything that promotes the establishment of automotive network following info-entertainment. The integration of wireless communication network and sensor technology enables the extraction and effective utilization of in-car, vehicle-road, inter-vehicle, out-car and people-vehicle data on the information platform, based on which, comprehensive services on traffic, safety, management and entertainment can be provided. It is a crucial part and development direction of intelligent connected vehicle sector in the future. Given the potential growth rate of connected vehicle in China, it is estimated that interconnection will be achieved by over 60% of vehicles in China as of 2020.

### ***4. Well-established network layout of 5G technology will lead to the prosperity of vehicle-to-everything***

In the era of intelligent connectivity, the main objective of connected vehicle ecosystem is to promote traffic safety and ultimately achieve autonomous driving. The technical requirements to reach self-driving include: 1) low latency, with end-to-end delay within 5ms; 2) high reliability, with packet error ratio below 99.999% and guaranteed transmission reliability in the event of limited spectrum resources shared by a large number of nodes due to traffic congestion; 3) support to high-speed mobility, with the maximum relative speed of 500km/h; and 4) transmission package with the minimum capacity of 1600 bytes of data. These technological requirements are highly consistent with the features of 5G technology, especially the low latency (<5ms) and high reliability characteristics unique to 5G technology that cannot be matched by DSRC and LTE-V. 5G technology will be put into full connected business implementation in 2020, plus the development plan of intelligent connected vehicles by the automobile industry, the well-established network layout of 5G technology will lead to the prosperity of vehicle-to-everything.

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## LETTER FROM THE BOARD

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### Competitive landscape

There are two main types of competitors in the market of built-in vehicle wireless communication modules. The first type is internationally renowned auto parts manufacturers or Tier 1 automotive electronics manufacturers with design and integration capabilities for line-fit automotive systems, such as LG Innotek, Continental, Valeo and other line-fit system integrators. These enterprises have passed the most stringent certification of management standards in the world, which ensure that their auto-grade products meet the demand of vehicle manufacturers. The second type is independent communication module suppliers, which primarily include Huawei, Sierra Wireless, Gemalto, the Target Group and U-Blox whose products are mainly incorporated into vehicle systems by line-fit system integrators. Among them, Huawei, Sierra Wireless, Gemalto and the Target Group are early entrants in the market, having stronger product and technological research and development and innovative capabilities, and they enjoy first-mover advantages by accumulating numerous client resources of various automotive enterprises and Tier 1 automotive electronics manufacturers in the market of built-in vehicle communication modules. In 2017, the brand mix of the global built-in vehicle communication module market showed that a limited number of leading automotive electronics giants accounted for over 50% of the market share, while the top three companies, namely, LG Innotek, Continental and Valeo, took up 42.2% of the market share.

The following table set forth the market share of global automotive communication module suppliers in terms of revenue in 2017:

<b>Ranking</b>	<b>Company</b>	<b>% of total</b>
1	LG Innotek	16.5%
2	Continental	14.4%
3	Valeo	11.2%
4	Huawei	9.5%
5	Sierra Wireless	9.0%
6	Gemalto	8.0%
7	U-Blox	5.5%
8	the Target Group	5.0%
9	WNC	3.2%
10	Others	<u>17.7%</u>
	Total	<u><u>100.0%</u></u>

Source: CCID

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## LETTER FROM THE BOARD

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### **Barriers to entry**

#### ***Requirements compliance***

Automotive communication module supplier must comply with all relevant automotive industry requirements. Suppliers need to have sufficient technical and design capability to meet functional, interface and mechanical requirements, as well as quality and environmental management system requirements security architecture and design capability.

#### ***Technological capabilities***

As only a limited number of globally leading electronics tycoons and technology enterprises have mastered the core technology of auto-grade line-fit communication connectivity, the global automotive communication module market is dominated by the top eight suppliers which share approximately 79.1% of the total market revenue in 2017. Auto-grade communication modules not only have to meet technical requirements of the automotive industry, but are also required to adapt to the accelerated evolution of intelligent connectivity technology. New entrants lacking sufficient know-how and technical capability will face difficulties meeting the stringent requirements of world-class OEMs.

#### ***High Switching Barrier***

As automotive OEMs usually do not risk engaging with new supplier given high recall and warranty costs, suppliers with secured strong relationship with existing OEM customers enjoy a competitive advantage since they generally have installed capacities suitable for replacement business.

#### ***Substantial investments***

Significant upfront investment and continuous expense for new products and development is required for automotive communication research and development. New entrants with lesser capital structures and lack of knowledge of supply and manufacturing operations have limited resources for sustainable development in this industry.

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## LETTER FROM THE BOARD

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### 4. REASONS FOR AND BENEFITS OF THE ACQUISITION

As China's leading tier-1 supplier of camera-based ADAS solutions and the leading provider of intelligent connected vehicle (ICV) cloud control solutions, the Group has been actively implementing China's strategy for ICV. In March 2018, the Group united leading enterprises of the industry to establish the National Innovation Center of ICV, responding to the Ministry of Industry and Information Technology's promotion. The Group is also actively participating in the top-level design of the future mobility system and the development of the industry under supervision of the National Development and Reform Commission. The Group is dedicated to developing integrated ADAS and autonomous driving (AD) systems that feature sensor data fusion, reinforcement learning as well as V2X and vehicle cloud connectivity solutions.

As set out in the section headed "Information of the Target Group", the Target Group maintains relationship with leading OEMs and Tier-1 Suppliers, has a track record of successful implementation with over 5 million product shipments and has superior R&D capabilities. Its technology and R&D competence has been evidenced by its pioneering role as the first supplier for security enabled modem solutions in the market. Further, based on the CCID Report, the Target Group is one of the top five independent automotive-grade connectivity module suppliers based on the worldwide total sales amount of automotive-grade connectivity module related products in 2017, and its major competitors, being module suppliers, include Huawei, Sierra Wireless, Gemalto and U-blox. Based on the information provided by the Vendors, as compared with the other automotive-grade connectivity module suppliers, the Target Group works closely with multiple semiconductor chipset makers, keeping it up-to-date with the features of the most recent connectivity technology and allowing it to use the most recent and suitable chipsets to design its modules. Further, the Target Group is also defended by the high barriers to entry of the Business, including the automotive industry specific product specifications, the design and R&D capabilities required to comply with automotive industry requirements, and the substantial upfront R&D investment required. Based on information provided by the Vendors, with over 10 years of know-how, the Target Group has also made progress on developing V2X and 5G technology. Further, from 2015 to 2017, the Target Group has won new projects from existing and new customers and has developed its presence in the Asia-Pacific region, such as China and Korea, with fast growing demand. The Company considers that these competitive strengths will continue to contribute to the success of the Target Group and differentiate it from its competitors.

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## LETTER FROM THE BOARD

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The Acquisition represents a significant milestone to expand the Group's business into the rapidly growing vehicle connectivity market, and will bring synergies between the Group's existing business and the Target Group's business, as set out below:

- (a) the Group is the leader in developing "National Cloud Control Platform for ICVs", which will create significant demand for next generation, extra reliable, low latency and highly secured vehicle connectivity and networking solutions. Combining the Target Group's capabilities, the Group will be able to define the development roadmap of vehicle connectivity system and provide cutting-edge connectivity solutions at "systems on chip" (SoC) level;
- (b) our existing sales and service network in China will bring extensive market access for the Target Group's business in China, while the Target Group also brings the Group extensive market access to global Tier 1 Suppliers of car manufacturers and OEMs of cars, creating significant cross-selling opportunities; and
- (c) through the Acquisition, our financial performance, business foundation and access to global talent pools will be significantly improved, allowing us to make more investment on key technologies for future AD system, such as next generation computing platform and vehicle cloud computing solutions.

Having considered the business strategies of the Group and the satisfactory business performance as well as the growth potential of the Target Group, the Board considers that the Acquisition is in line with the Group's strategy of developing intelligent connected vehicles, and will enable the Group to leverage the expertise of the Target Group and its strong presence and research and development capabilities in various countries, which will create favourable synergies for the Group.

In view of the above, the Directors consider that the Acquisition is made on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 5. FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Following Completion, the Target Group will become wholly-owned subsidiaries of the Company, and the financial results of the Target Group will be consolidated into the Group's accounts. The unaudited pro forma financial information of the Enlarged Group illustrating the financial impact of the Acquisition on the results, assets and liabilities of the Group is set out in Appendix IV to this circular.

#### **Assets and liabilities**

The unaudited consolidated total assets and total liabilities of the Group as at 30 June 2018, as extracted from the interim report of the Company for the period ended 30 June 2018, were approximately HK\$1,425.7 million and HK\$826.6 million respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming Completion had taken place on 30 June 2018, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately HK\$1,670.1 million and HK\$1,083.2 million respectively.

#### **Earnings**

Following Completion, the Target Group will become wholly-owned subsidiaries of the Company and the Group will be able to consolidate results of the Target Group. The audited loss after tax for the financial year ended 31 December 2017 as extracted from the annual report of the Company for the year ended 31 December 2017 was approximately HK\$70.5 million. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming the Acquisition had been completed on 1 January 2017, the pro forma loss after tax of the Enlarged Group for the year ended 31 December 2017 would amount to approximately HK\$72.2 million.

Further details are set out in "Appendix IV – Unaudited pro forma financial information of the Enlarged Group" to this circular.

### 6. INFORMATION ON THE PARTIES TO THE ACQUISITION

#### **The Company**

The Company is incorporated in the Cayman Islands with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 00872). The Group is a leading solutions provider of ADAS and autonomous driving cloud control in the PRC. It also operates automobile-related services including financial leasing of vehicles and related equipment.

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## LETTER FROM THE BOARD

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The Company intends to further develop its existing businesses as outlined under “Reasons for and benefits of the Acquisition” above, and will review the business operations and financial position of the Group from time to time for the purpose of formulating business plans and strategies for the future business development of the Group in order to enhance the long-term growth potential of the Group. As at the Latest Practicable Date, there is no intention, negotiation, agreement, arrangement or understanding (concluded or otherwise) about any disposal, scaling-down and/or termination of the Company’s existing businesses and/or major operation.

### **Telit Communications**

Telit Communications is incorporated in England and Wales with limited liability, and the shares of Telit Communications are listed on the AIM market of the London Stock Exchange (stock code: TCM). Telit Communications is a global leader in IoT enablement, which offers products and services including cellular communication modules, global navigation satellite system, short range wireless modules including low power Wi-Fi and Bluetooth, IoT connectivity and IoT platform services.

### **Telit Wireless**

Telit Wireless is a limited company established in Italy and a subsidiary of Telit Communications. Telit Wireless is a non-trading company.

## **7. LISTING RULES IMPLICATIONS**

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company and is subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

## **8. WAIVER FROM STRICT COMPLIANCE WITH RULES 14.67(6)(a)(i) AND 4.03 OF THE LISTING RULES**

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountant’s report on the Target Group prepared in accordance with Chapter 4 of the Listing Rules. The accounts on which such report is based must relate to a financial period ended six months or less before this circular is issued, and the financial information on the Target Group must be prepared using accounting policies which should be materially consistent with those of the Company. In this regard, the Company is required under Chapter 4 of the Listing Rules to include an accountant’s report on the Target Group with the financial information of the Target Group for the three financial years ended 31 December 2017 and the six months ended 30 June 2018 prepared under Hong Kong Financial Reporting Standards (the “**HKFRS**”), the accounting standards as used by the Company for its regular financial reports.

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## LETTER FROM THE BOARD

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Pursuant to Rule 4.03 of the Listing Rules, an accountants' report on any company being acquired must be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) ("**Professional Accountants Ordinance**"). Rule 4.03 also provides that in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of practicing accountants which is not so qualified but which is acceptable to the Stock Exchange. Such firm must normally have an international name and reputation and be a member of a recognised body of accountants.

The Directors are of the view that it is more appropriate to appoint Kost Forer Gabbay & Kasierer ("**EY Israel**") as reporting accountants for the purpose of issuing the accountants' report of the Target Group to be included in this circular based on the following reasons:

- (i) Telit Communications is a company incorporated in England and Wales, and its shares are listed on the AIM market of the London Stock Exchange (the "**London Stock Exchange**"). The financial statements of Telit Communications for the three years ended 31 December 2017 were audited by Ernst & Young LLP under International Financial Reporting Standards (IFRSs) as adopted by European Union ("**IFRS-EU**"). Although the Target Company is a company incorporated in the Kingdom of Belgium and other members of the Target Group are or will be incorporated in France, Germany, Korea and Israel respectively, the largest research and development centre and the corporate management of the Target Group are located in Israel. As EY Israel has acquired detailed knowledge of the Target Group in the course of auditing the financial statements of the subsidiaries of Telit Communications in Israel and the United States of America, and given the proximity of EY Israel to the Target Group's business, the Directors consider that it would be more cost and time efficient to engage EY Israel rather than a firm of professional accountants who are qualified under the Professional Accountants Ordinance but who are not familiar with the Target Group to prepare the accountants' report on the Target Group for inclusion in this circular;
- (ii) Although EY Israel was not registered under the Professional Accountants Ordinance, it is a firm with international name and reputation and registered with a recognized body of accountants, namely The Institute of Certified Public Accountants in Israel (ICPA). EY Israel is a full member firm of the reputable international accounting practice of Ernst & Young Global and a registered public accountant firm member of the Public Company Accounting Oversight Board (PCAOB) in the United States of America;
- (iii) The Company understands from EY Israel that there are no material differences between IFRS-EU and IFRS as they relate to the combined financial information of the Target Group; and

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## LETTER FROM THE BOARD

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- (iv) As IFRS are permitted under Rule 4.11(b) of the Listing Rules and have been fully converged with the HKFRS in all material respects, the Company is of the view that no reconciliation between the IFRS and HKFRS is necessary.

The Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 14.67(6)(a)(i) and 4.03 of the Listing Rules to allow the accountants' report on the Target Group for inclusion in this circular to be prepared by EY Israel in accordance with IFRS.

### 9. THE EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. The EGM will be convened and held at Regus Conference Centre, 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 29 January 2019 at 10:30 a.m. for the purpose of considering and, if thought fit, approving the resolution(s) in respect of the Acquisition Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the respective websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.tus-i.com](http://www.tus-i.com)). Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

The resolution proposed at the EGM will be taken by way of poll. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and is required to abstain from voting on the relevant resolution(s) to be proposed at the EGM.

Pursuant to the Undertakings, each of the Relevant Shareholders has irrevocably undertaken to exercise or procure the exercise of all voting rights in respect of all the Shares of which such Relevant Shareholder is the registered holder and/or beneficial owner as at the record date for determining Shareholder's entitlement to vote at the EGM in favour of the relevant resolution(s) at the EGM for approving the Acquisition Agreement and the transactions contemplated thereunder. Their aggregate shareholdings in the Company are set out under "The Acquisition Agreement – Voting undertakings" above.

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## LETTER FROM THE BOARD

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### 10. RECOMMENDATION

The Directors consider that the Acquisition is made on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

### 11. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

**Completion of the Acquisition is subject to the satisfaction or (if applicable) waiver of the conditions precedent set out in the Acquisition Agreement and may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares and other securities of the Company.**

Yours faithfully,  
On behalf of the Board of  
**TUS International Limited**  
**Ma Chi Kong Karl**  
*Chairman*

**1. SUMMARY OF FINANCIAL INFORMATION**

Financial information and management discussion and analysis of the Group for each of the three years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 are disclosed in the following documents, and are incorporated by reference into this circular:

- 2015 annual report of the Company for the year ended 31 December 2015 published on 28 April 2016 (pages 41 to 144 and pages 6 to 14);
- 2016 annual report of the Company for the year ended 31 December 2016 published on 27 April 2017 (pages 50 to 150 and pages 6 to 15);
- 2017 annual report of the Company for the year ended 31 December 2017 published on 27 April 2018 (pages 52 to 162 and pages 6 to 15); and
- 2018 interim report of the Company for the six months ended 30 June 2018 published on 11 September 2018 (pages 4 to 29 and pages 30 to 40).

The above reports of the Company are available on the Company's website at [www.tus-i.com](http://www.tus-i.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

**2. INDEBTEDNESS**

At the close of business on 31 October 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Group was as follows:

**Bank and other borrowings**

As at 31 October 2018, the Group had outstanding bank and other borrowings of approximately HK\$127.1 million, of which approximately HK\$22.5 million bank loans were secured by personal guarantee given by a director of the subsidiary, approximately HK\$45.0 million bank loans were pledged with the Group's bank deposit amounting to RMB42.4 million and approximately HK\$2.1 million bank loans were secured by bank acceptance bills, and approximately HK\$57.5 million bank and other loans were unsecured and unguaranteed from independent third parties.

**Convertible bonds**

As at 31 October 2018, the Group also had outstanding unsecured convertible bonds issued by the Company with an aggregate principal amount of HK\$376.5 million.

**Pledge of assets**

As at 31 October 2018, approximately RMB40.0 million bank loans provided by the bank to Suzhou Zhihua Automobile Electronics Co., Ltd (“Suzhou Zhihua”) was pledged with bank deposits of the Company amounting to approximately RMB44.2 million. Save as disclosed herein, there were no pledge of assets by the Group.

**Commitments**

As at 31 October 2018, the Group’s total future minimum lease payments under non cancellable operating leases were as follows:

	<i>HK\$’000</i>
Within one year	5,217
In the second to fifth year	<u>8,277</u>
	<u><u>13,494</u></u>

**Contingent liabilities**

As at 31 October 2018, the Group had no material contingent liabilities. Save as aforementioned or as otherwise disclosed herein, and apart from intra-group liabilities within the Group and normal trade business, at the close of business on 31 October 2018, the Group did not have any other outstanding borrowings, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, RMB has been translated into HK\$ at the exchange rate of RMB1 to HK\$1.1255.

**3. WORKING CAPITAL**

Taking into account the financial resources available to the Group, including the internally generated funds, cash and cash equivalents on hand, and the existing available committed and uncommitted borrowing facilities, and assuming completion of the proposed equity fund raising for up to US\$85 million (equivalent to approximately HK\$667 million) by the Company as described under the section headed “2. The Acquisition Agreement – Consideration” in “Letter from the Board” of this circular, the Directors are of the opinion that in the absence of unforeseeable circumstances, the Group has sufficient working capital available for its requirements, that is for at least the next 12 months from the date of this circular.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Group is principally engaged in production and sale of ADAS products and other automotive components, car-carried purifiers, car trading and provision of financing service for leasing motor vehicles and equipment. To align with the Group’s strategy as a leading enterprise in the intelligent driving sector, the Group is actively seeking new investment opportunities in the key technology of intelligent connected vehicles which including four synergistic aspects, i.e. sensors (perceptual system), information communication (connectivity system), processors and algorithms (decision-making system) and vehicle control (execution system). The Proposed Acquisition represents an expansion of the Group’s existing business activities into information communication aspects to achieve its overarching goal.

As disclosed in the section of “Letter from the Board – Reasons for and benefits of the Acquisition”, after taking into account the factors set out in that section, the Directors consider that the Proposed Acquisitions is beneficial for the Group as it would allow the Group to participate and benefit from the fast growing intelligent connected vehicle industry.

Looking ahead, the Group will continue to strive for business growth and seize opportunities in order to bring greater returns to the Shareholders.

*Set out below is the management discussion and analysis of the results of the Group for each of the financial years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2018. The information is extracted from the annual and interim reports of the Company for the relevant financial years and financial period, respectively, which have been published on the respective websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.tus-i.com](http://www.tus-i.com)).*

*The management discussion and analysis for each financial year or the financial period should be read in conjunction with the financial information of the Group included in the respective annual or interim reports of the Company.*

### **MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2015, 2016, 2017 AND SIX MONTHS ENDED 30 JUNE 2018**

*Below texts are extracted from the Company's annual report for each of the three years ended 31 December 2015, 2016 and 2017 and its interim report for the six months ended 30 June 2018.*

#### **FOR THE YEAR ENDED 31 DECEMBER 2015**

##### **Financial review**

##### ***Revenue***

During the year ended 31 December 2015, the revenue and the average gross profit margin of the Group were approximately HK\$194.6 million and approximately 11.0% respectively, while it was approximately HK\$184.9 million and approximately 5.7% respectively in last year. The difference was mainly resulted from downturn of the traditional automotive safety product industry, particularly in the manufacturing sector, while expansion into the automobile inventory financing business brings a promising revenue stream.

The Group leverages on the comprehensive coverage of its automotive electronic products and safety spare parts, car trading, finance lease of motor vehicles and equipment, and to expand its operations amidst the unfavorable industrial trend, and pursued development opportunities at low costs. The revenue of the Group's automotive electronic products and safety spare parts decreased by 64.3% from approximately HK\$184.9 million for the year ended 31 December 2014 to approximately HK\$66.0 million for the year ended 31 December 2015. The decrease was mainly attributable to the downturn of the traditional automotive safety product industry, particularly in the manufacturing sector, while the structural correction of the Chinese economy will inevitably put pressure on our overall business. The revenue generated from the Group's car trading and finance lease of motor vehicles and equipment segments reached approximately HK\$122.3 million and HK\$6.2 million respectively. The segment results arrived in this year due to the new businesses of car trading and automobile inventory financing in the current year.

#### ***Other loss***

During the year ended 31 December 2015, the Group recorded approximately HK\$77.7 million of other loss while it was approximately HK\$4.4 million last year. The increment was mainly due to provision for (i) impairment loss recognised on intangible assets of approximately HK\$19.2 million; (ii) impairment loss recognised on goodwill of approximately HK\$5.1 million; (iii) impairment loss recognised on interests in an associate of approximately HK\$31.5 million; (iv) provision for inventories of approximately HK\$15.0 million and (v) loss on disposal of property, plant and equipment of approximately HK\$4.1 million.

#### ***(i) Impairment loss recognised on intangible assets***

As disclosed in the annual report of the Company for the year ended 31 December 2014, the Group had discussed the possibility of refining the manufacturing business of the Group by sub-contracting the manufacturing process of automotive engine management system products (the "EMS") with the support of the technology and patent of the Group. Such sub-contracting of manufacturing process is still in testing stage and has not yet commenced as originally scheduled due to the quality and arrangement issues, and it is still under negotiation and inspection.

With the rising attention to environmental issue around the world, the vehicle emission standard and requirements in the PRC are gradually becoming more stringent and moving towards the European standards. As mentioned by a PRC government official in the “2015 International Forum on Automobile Material” conducted in May 2015, the PRC Government plans to advance the implementation of “Heavy-duty vehicles and engines Gas V National Standards” (the “National Standards V”) to 1 January 2017, which was originally scheduled to be implemented on 1 January 2018. Many provinces and major cities in the PRC, including Shanghai, Tianjin, Guangdong and Beijing etc, had took a step further and already started to implement stricter policies and requirements on the vehicles before the above national schedule. The Beijing Municipal Environmental Protection Bureau announced in June 2015 that the vehicles that fail to fulfill the requirements of National Standards V are not allowed to be registered and sold. With the fast-changing national standards and requirements, the Group is still in negotiation with its subcontractors with a view to improve the sub-contracting of the manufacturing process in order to meet such higher standard and requirements and to keep pace with such trend and to search for advancement in relation to eco-friendly technology for continuous development of its business.

In addition, energy efficiency is another main environmental concern in the industry and electric vehicles and energy efficient vehicles are becoming more popular worldwide, including in the PRC. Given that vehicle combustion was one of major reasons for air pollution problem in the PRC, the PRC Government was determined to tackle the problem by promoting eco-friendly energy source as well as energy efficient technologies and vehicles. The Group therefore has decided to deploy more resources to improve and modify the existing technologies with an aim to possess more advanced technology to produce automotive EMS which can meet the more stringent environmental standards, which results in a delay of the Group’s sub-contracting of manufacturing process. As the sub-contracting of manufacturing process of the EMS is still in the testing stage and has not yet commenced as originally scheduled and the carrying amount of patents is higher than the recoverable amount, impairment loss of approximately HK\$19.2 million was recognised during the year ended 31 December 2015.

*(ii) Impairment loss recognised on goodwill*

The goodwill of the Group belongs to the cash-generating unit (the “CGU”) which is related to the manufacturing and sale of EMS products. As the sub-contracting of manufacturing process of the EMS is still in the testing stage and has not yet commenced as originally scheduled and the Directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount. As the carrying amount of this CGU is higher than the recoverable amount, impairment loss of approximately HK\$5.1 million was recognised during the year ended 31 December 2015.

*(iii) Impairment loss recognised on interests in an associate*

Impairment loss recognised on interests in an associate of approximately HK\$31.5 million represents (1) impairment loss recognised on amount due from an associate of approximately HK\$7.5 million and (2) impairment loss recognised on investment in an associate of approximately HK\$24.0 million.

Due to the long-aged debt which was over 2 years, the Group decided that the amount due from an associate would not be collectable, and hence impairment on amount due from an associate of approximately HK\$7.5 million was made in accordance with the Group's credit policy regarding the treatment of long-aged debt.

For the year ended 31 December 2015, the associate of the Group continuously suffering losses. As it has also provided the impairment on amount due from an associate, the Directors considered that there are indications for the nonrecoverability of the interests in an associate. Under this circumstance, the Directors consider to impair the interests in an associate and therefore impairment loss recognised on investment in an associate of approximately HK\$24.0 million was made.

*(iv) Provision for inventories*

Provision for inventories of approximately HK\$15.0 million represents provision for slow moving items because of the abovementioned reasons as stated in items (i) and (ii) above, determined by Directors in re-assessing the net realisable value of inventories within the Group. The Group considered that the making of provision for inventories can more accurately reflect the financial position of the Group. The Group will dedicate its effort to keep itself up to date with the market conditions and manage its inventory level more effectively.

***Administrative expenses***

In 2015, the administrative expenses of the Group were approximately HK\$76.1 million, which was increased by approximately HK\$9.0 million as compared with 2014. The increment is mainly due to share-based payments to certain eligible participants during the year ended 31 December 2015.

***Finance costs***

The finance costs during the current year under review were decreased by approximately HK\$2.2 million to approximately HK\$1.6 million as compared to 2014. This was mainly due to changes to the Group's financing structure which has a relatively lower funding cost than previous year.

***Loss attributable to the owners of the Company***

For the year ended 31 December 2015, the Group recorded approximately HK\$144.7 million loss for the year attributable to the owners of the Company, while it was of approximately HK\$96.1 million last year. The increment was mainly due to the increment of other loss as discussed above.

**Liquidity and financial resources**

As at 31 December 2015, the Group had cash and cash equivalents of approximately HK\$240.1 million (2014: approximately HK\$105.3 million) and net current assets of approximately HK\$379.3 million, which decreased by approximately HK\$2.1 million as compared with the last fiscal year. The increase in cash and cash equivalents was mainly due to the increment of bank and cash balances as a result of the placing of new shares completed in June 2015. The total non-current assets of the Group were approximately HK\$152.9 million in 2015, while it was approximately HK\$132.2 million last year.

As at 31 December 2015, the Group had non-current liabilities of approximately HK\$14.5 million, which represented the deferred tax liabilities.

The Group also had short-term borrowings of approximately HK\$34.0 million which included a bank loan with a principal amount of approximately HK\$6.3 million (equivalent to RMB5.3 million) with fixed interest rate of 6.3%, discounted bills of approximately HK\$10.1 million and other loan of approximately HK\$17.5 million which were obtained from independent third parties with fixed interest rate of 8% which were not yet matured at the year end date. The short-term borrowings were primarily used to finance short-term cash flows for the operations of the Group.

**Funding and treasury policy**

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

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2015, 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 2015, the Group had pledged certain discounted bills with recourse totaling approximately HK\$10.1 million were secured by the related bills receivable and were repayable within one year.

**Gearing ratio**

The Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 15.9% in 2015 from 11.9% in 2014.

**Contingent liabilities**

As at 31 December 2015, the Directors were not aware of any material contingent liabilities.

**Foreign exchange exposure**

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2015, 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.

**Employees and remuneration policy**

As at 31 December 2015, the Group employed approximately 289 staff in the PRC and Hong Kong, which maintains at similar level as compared with 31 December 2014. The Group's remuneration to employees, including directors' emoluments increased by approximately HK\$10.1 million to approximately HK\$37.5 million for the current fiscal year. The increment is mainly due to share-based payments during the year of 2015.

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.

***Retirement schemes***

The Group maintains a mandatory provident fund (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.

**Material acquisitions and disposals**

In February 2015, the Group had entered into agreements to acquire 20 premium cars at total consideration of HK\$65.0 million. The transaction was completed in February 2015.

In mid March 2015, the Group had entered into an agreement to acquire 18% of the entire issued share capital in More Cash Limited, which through its subsidiaries, is engaged in property development and trading and its principal assets of properties are located in Guangzhou City, the PRC, from an independent third party, at the consideration of HK\$73.0 million. The transaction was completed in March 2015.

In late March 2015, the Group had entered into an agreement to acquire 5% of the entire issued share capital in Grand Vision Communications Limited, which through its subsidiaries, is engaged in the out-of-home advertising business at the consideration of HK\$5.5 million. The transaction was completed in March 2015.

In November 2015, the Company entered into three joint venture agreements between (1) Pine Mega Limited, an indirect wholly-owned subsidiary of the Company and Kunshan Qidi Science Park Development Company Limited (昆山啟迪科技園發展有限公司); (2) Marvel Rise Limited, an indirect wholly-owned subsidiary of the Company and Suzhou Ziguang Innovative Education Development Company Limited (蘇州紫光創新教育發展有限公司); and (3) Shine Venture Limited, an indirect wholly-owned subsidiary of the Company and Nanjing Qidi Science Park Asset Management Company Limited (南京啟迪科技園資產管理有限公司), pursuant to which the joint ventures will be established in Kunshan, Suzhou and Nanjing, the PRC. Pine Mega Limited, Marvel Rise Limited and Shine Venture Limited will have 50% equity interest in each joint venture respectively. The registered capital of the joint ventures will be RMB60.0 million (equivalent to approximately HK\$73.8 million), RMB60.0 million (equivalent to approximately HK\$73.8 million) and RMB30.0 million (equivalent to approximately HK\$36.9 million) respectively.

In December 2015, the Company had entered into an agreement with two independent third parties, Mighty Great Limited and Universal Capital Group Limited, to acquire 51% of the entire issued share capital of Optimus Financial Group Limited, at the consideration of approximately HK\$71.9 million. The transaction was completed in December 2015.

#### **Significant investment**

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

### **FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **Financial review**

##### ***Revenue***

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

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

***Other loss***

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

***Administrative expenses***

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

***Loss attributable to the owners of the Company***

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

***Finance costs***

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

***Gain on disposal of subsidiaries***

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

**Liquidity and financial resources**

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

As at 31 December 2016, the Group had non-current liabilities of approximately HK\$57.3 million, which increased by approximately HK\$42.8 million as compared with the last fiscal year. The increment was mainly due to the convertible bond issued in 2016. Details of which are set out in the announcements of the Company dated 16 May 2016 and 27 May 2016, respectively and the “Material Acquisitions and Disposals” section in the 2016 annual report. The Group also had short-term borrowings of approximately HK\$9.7 million which represented other loans in the statement of financial position. Such loans were obtained from independent third parties with a fixed interest rate of 8% which were not yet matured at the year end date. The short-term borrowings were primarily used to finance short-term cash flows for the operations of the Group.

**Funding and treasury policy**

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

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

**Charge of assets**

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

**Gearing ratio**

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

**Contingent liabilities**

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

**Foreign exchange exposure**

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

**Employees and remuneration policy**

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

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

Further particulars regarding the Directors' emoluments and the five highest paid individuals are set out in notes 14 and 15 to the financial statements of the 2016 annual report, 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.

**Material acquisition and disposal*****Disposal of interest in Smooth Ever Limited***

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

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

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

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

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

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

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

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

***Subscription of shares in Tuspark Global***

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

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

The Tuspark Global Subscription was completed in December 2016.

#### ***Acquisition of minority interest in Ziguang Innovative***

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

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

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

#### **Significant investment**

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

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **Financial review**

##### ***Revenue***

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.

#### ***Other revenue***

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.

#### ***Other loss***

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.

#### ***Administrative expenses***

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.

***Finance costs***

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.

***Loss attributable to the owners of the Company***

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).

***Liquidity and financial resources***

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 2017 annual 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 2017 annual 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 the 2017 annual 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.

**Funding and treasury policy**

The Group intends to principally finance its operations and investing activities, among others, with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. However, in order to execute the strategies of the Group, the Directors will continue to monitor both the equity and debt capital markets to replenish funds, as and when appropriate, for future expansion and creation of shareholders' value. The Group adopts a treasury policy which allows the Group to invest its surplus funds in different investment grade debt securities or other investment vehicles.

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi 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.

**Foreign exchange exposure**

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.

**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 of the 2017 annual report, 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.

**Material acquisition and disposal*****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 HighTech (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.

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 the 2017 annual 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.

**Significant investment**

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

**SIX MONTHS ENDED 30 JUNE 2018**

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

**Business Outlook and Prospects**

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

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

- On 23 May 2018, the Group partnered with Shanghai International Automobile City to build the pilot base of “National Intelligent Connected Vehicle Cloud Control Platform” in Shanghai. The Group is the pioneer in developing cloud control technology, which serves to connect all vehicles, infrastructure, pedestrians into a holistic mobility system, facilitate intelligent data exchange among mobility system, distribute environment perception and coordinate decision-making and motion control, and provide big data and cloud artificial intelligence services. The Group plans to expand partnership with mobile carriers, high-precision positioning service providers, ITS companies to jointly promote “National Intelligent Connected Vehicle Cloud Control Platform”, and develop pilot bases in other strategically important regions, such as Beijing, Xiong’an, Guangdong and Fujian in the near future.
- In addition, as announced on 12 July 2018, the Group entered into an agreement with Telit Communications PLC and Telit Wireless Solutions S.R.L and Telit Automotive Solutions N.V to acquire its auto-grade wireless communication module business. For the first half of 2018, such business has generated revenue of approximately US\$34.2 million (equivalent to approximately HK\$268.5 million). As of 31 March 2018, such business had a total sales backlog of over HK\$3.0 billion for delivery in 2018 to 2020. Such business is expected to have significant synergies with our other businesses, and will significantly expand our global footprint and improve our overall business and financial performance. The Group plans to finance this acquisition through a combination of existing internal resources, equity placement and term loans from banks in an aggregate principal amount of not less than US\$30 million (equivalent to approximately HK\$235.5 million), and expects to complete this acquisition by the end of 2018.

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

- As of 30 June 2018, the Group had a total sales backlog of ADAS products of over HK\$1.8 billion for delivery in 2018 to 2020.
- We expect new ADAS products will generate over RMB10.0 million revenue in the second half of 2018.

- The Group will continue to invest into research and development of latest computer vision technologies to provide customers with more comprehensive computer vision-based driver assistance solutions, such as APA (“Advanced Parking Assist”), FCW (“Forward Collision Warning”), LKA (“Lane Keeping Assist”), etc.
- As announced on 5 September 2018, the Group plans to found Kymati GmbH. in Germany in order to tap into the vast talent pool of experts in millimeter wave radar for auto use in Germany. Kymati GmbH. will serve as a tier-2 supplier of millimeter wave radar module to the Group’s ADAS business and allow the Group to better capitalise on the AEB (“Automatic Emergency Brake”) market opportunities in China, in particular in the commercial vehicle segment where compulsory adoption is required.

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

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

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

### **Financial Review**

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

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

***ADAS Products and other automotive components***

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

***Car-carried Purifiers***

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

***Car Trading***

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

***Finance Lease of Motor Vehicles and Equipment***

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

***Other Loss***

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

***Research and Development Expenses***

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

***Selling and Distribution Expenses***

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

***Administrative Expenses***

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

***Finance Cost***

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

***Share of Loss of an Associate***

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

***Share of Loss of a Joint Venture***

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

***Loss for the period***

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

***Basic Loss per Share***

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

**Use of Net Proceeds from Partial Completion of the Allotment and Issue of shares**

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

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

*Note:*

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

**Liquidity and Financial Resources**

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

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

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

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

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

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

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

### **Capital Structure**

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

### **Treasury Policy**

The Group intends to principally finance its operations and investing activities, among others, with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. However, in order to execute the strategies of the Group, the Directors will continue to monitor both the equity and debt capital markets to replenish funds, as and when appropriate, for future expansion and creation of shareholders' value. The Group adopts a treasury policy which allows the Group to invest its surplus funds in different investment grade debt securities or other investment vehicles.

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi, Hong Kong dollar and US dollar. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 30 June 2018, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

#### **Charge of Group Assets**

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

#### **Contingent Liabilities**

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

#### **Material Acquisitions and Disposals**

##### ***Joint Establishment of the National Innovation Center of Intelligent Connected Vehicles***

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

***Further Acquisition of Equity Interests in Suzhou Zhihua***

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

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

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

**Future plans for material investments**

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

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

**Significant Investment**

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

**Foreign Exchange Exposure**

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

**Employees and Remuneration Policy**

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

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

**Events after the Reporting Period**

Details of the events after the reporting period of the Group are disclosed in Note 22 of "Notes to the Condensed Consolidated Financial Statements" section in the interim report of 2018.

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

*The following is the text of a report, prepared for the purpose of incorporation in this circular, from the independent reporting accountants, Kost Forer Gabbay & Kasierer.*

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TUS INTERNATIONAL LIMITED**

We report on the historical financial information of Telit Automotive Solutions NV (the "Target Company") and its subsidiary and the Automotive Businesses (as defined in note 2(a)) (together, the "Target Group") set out on pages III-4 to III-41, which comprises the combined statements of comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for each of the years ended December 31, 2015, 2016 and 2017, and the six months ended June 30, 2018 (the "Relevant Periods"), and the combined statements of financial position of the Group as at December 31, 2015, 2016 and 2017, and June 30, 2018, and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-41 forms an integral part of this report which has been prepared for inclusion in the circular of TUS International Limited (the "Company") dated December 26, 2018 (the "Circular") in connection with the proposed acquisition of all of the issued shares of the Target Company.

**Directors' responsibility for the Historical Financial Information**

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and combination set out in notes 2(b) and 2(c) to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and combination set out in notes 2(b) and 2(c) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Group as at December 31, 2015, 2016 and 2017, and June 30, 2018, and of the financial performance and cash flows of the Target Group for each of the Relevant Periods in accordance with the basis of preparation and combination set out in notes 2(b) and 2(c) to the Historical Financial Information.

**Review of interim comparative financial information**

We have reviewed the interim comparative financial information of the Target Group which comprises the combined statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended June 30, 2017 and other explanatory information (the “Interim Comparative Financial Information”). The directors of the Target Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation and combination set out in notes 2(b) and 2(c) to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and combination set out in notes 2(b) and 2(c) to the Historical Financial Information.

**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-4 have been made.

**Dividends**

We refer to note 17 to the Historical Financial Information which states that no dividends have been paid by the Target Group in respect of the Relevant Periods.

Yours faithfully,

**Kost Forer Gabbay & Kasierer**

A member of Ernst & Young Global

Tel Aviv, Israel

December 26, 2018

**I FINANCIAL INFORMATION****Preparation of Financial Information**

The financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Kost Forer Gabbay and Kasierer, a member of Ernst & Young Global, in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “Underlying Financial Statements”).

The Historical Financial Information and Interim Comparative Financial Information are presented in U.S. dollars and all values are rounded to the nearest thousand except when otherwise indicated.

## II HISTORICAL FINANCIAL INFORMATION

## COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31			Six months ended June 30	
		2015 US\$'000	2016 US\$'000	2017 US\$'000	2017 US\$'000 (unaudited)	2018 US\$'000
Sale of goods		30,828	31,141	59,729	23,237	33,618
Rendering of services		<u>440</u>	<u>787</u>	<u>3,429</u>	<u>2,461</u>	<u>564</u>
Total Revenues	3	31,268	31,928	63,158	25,698	34,182
Cost of sales		<u>21,610</u>	<u>22,337</u>	<u>45,451</u>	<u>16,900</u>	<u>26,997</u>
<b>Gross profit</b>		9,658	9,591	17,707	8,798	7,185
Research and development expenses	5	2,971	3,402	4,165	1,442	1,916
Selling and marketing expenses		2,107	2,232	3,088	1,398	1,735
General and administrative expenses		243	1,005	1,062	520	497
Depreciation, amortization and other expenses		<u>2,990</u>	<u>4,752</u>	<u>6,325</u>	<u>2,860</u>	<u>4,342</u>
<b>Profit/(loss) before income taxes</b>	4	<u>1,347</u>	<u>(1,800)</u>	<u>3,067</u>	<u>2,578</u>	<u>(1,305)</u>
Tax credit	11	<u>1,357</u>	<u>889</u>	<u>267</u>	<u>344</u>	<u>1,366</u>
<b>Net profit/(loss)</b>		<u><u>2,704</u></u>	<u><u>(911)</u></u>	<u><u>3,334</u></u>	<u><u>2,922</u></u>	<u><u>61</u></u>
<b>Other comprehensive (loss)/income</b>						
Items to be reclassified in subsequent periods to profit or loss:						
Foreign currency translation differences						
		(901)	(191)	885	580	(143)
Items not to be reclassified in subsequent periods to profit or loss:						
Remeasurement loss on defined benefit plan						
		<u>-</u>	<u>-</u>	<u>(133)</u>	<u>(96)</u>	<u>(27)</u>
<b>Total comprehensive income/(loss) for the year/period</b>		<u><u>1,803</u></u>	<u><u>(1,102)</u></u>	<u><u>4,086</u></u>	<u><u>3,406</u></u>	<u><u>(109)</u></u>

## COMBINED STATEMENTS OF FINANCIAL POSITION

		As at December 31			As at
		2015	2016	2017	June 30
	Note	US\$'000	US\$'000	US\$'000	2018
					US\$'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets					
– internally generated	9	9,121	15,423	24,327	26,003
Intangibles assets – acquired	9	4,915	3,418	2,364	1,599
Equipment	10	4,364	4,375	5,884	4,926
Other non-current assets		25	24	28	28
Deferred tax assets	11	<u>1,357</u>	<u>2,246</u>	<u>2,514</u>	<u>3,879</u>
		<u>19,782</u>	<u>25,486</u>	<u>35,117</u>	<u>36,435</u>
<b>Current assets</b>					
Inventories	6	2,225	2,351	2,892	5,532
Trade receivables	7	2,986	7,495	19,241	16,444
Other current assets	8	1,011	1,723	1,464	1,183
Deposits – restricted cash		8	–	–	–
Cash and cash equivalents		<u>225</u>	<u>2,773</u>	<u>948</u>	<u>2,810</u>
		<u>6,455</u>	<u>14,342</u>	<u>24,545</u>	<u>25,969</u>
<b>Total assets</b>		<u><u>26,237</u></u>	<u><u>39,828</u></u>	<u><u>59,662</u></u>	<u><u>62,404</u></u>

	Note	As at December 31			As at
		2015	2016	2017	June 30
		US\$'000	US\$'000	US\$'000	2018
					US\$'000
<b>LIABILITIES AND EQUITY</b>					
<b>Equity</b>					
Share capital	16	5,426	10,214	10,214	10,214
Parent contribution to equity, net	17	9,543	13,776	19,732	20,359
Translation reserve		(901)	(1,092)	(340)	(510)
Retained earnings		<u>2,704</u>	<u>1,793</u>	<u>5,127</u>	<u>5,188</u>
<b>Total equity</b>		<u><u>16,772</u></u>	<u><u>24,691</u></u>	<u><u>34,733</u></u>	<u><u>35,251</u></u>
<b>Non-current liabilities</b>					
Post-employment benefits		<u>418</u>	<u>526</u>	<u>808</u>	<u>830</u>
		<u>418</u>	<u>526</u>	<u>808</u>	<u>830</u>
<b>Current liabilities</b>					
Short-term borrowings from banks		2	2	–	–
Trade payables	13	8,174	13,489	22,521	24,975
Other payables		2	1	17	7
Accruals and other current liabilities	14	<u>869</u>	<u>1,119</u>	<u>1,583</u>	<u>1,341</u>
		<u>9,047</u>	<u>14,611</u>	<u>24,121</u>	<u>26,323</u>
<b>Total equity and liabilities</b>		<u><u>26,237</u></u>	<u><u>39,828</u></u>	<u><u>59,662</u></u>	<u><u>62,404</u></u>

## COMBINED STATEMENTS OF CASH FLOWS

	Year ended December 31			Six months ended June 30	
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2017 US\$'000 (unaudited)	2018 US\$'000
<b>CASH FLOWS – OPERATING ACTIVITIES</b>					
Net profit/(loss) for the year/period	2,704	(911)	3,334	2,922	61
Adjustments for:					
Depreciation of equipment	1,278	1,759	2,697	1,212	1,326
Amortization of intangible assets	1,439	2,142	3,086	1,422	2,507
Loss on sale of equipment	–	361	49	16	125
Increase in provision for post-employment benefits	10	108	149	85	(5)
Change in long term provisions, net	(65)	–	–	–	–
Income tax credit	(1,357)	(889)	(268)	(344)	(1,365)
Share-based payment charge, net	273	490	493	210	227
Operating cash flows before movements in working capital:					
Decrease/(increase) in trade and other receivables	4,282	3,060	9,540	5,523	2,876
(Increase)/decrease in other current assets	(2,499)	(4,509)	(11,746)	(3,657)	2,797
Decrease/(increase) in inventories	(601)	(712)	259	(240)	281
Increase in trade payables	(68)	(126)	(541)	(1,843)	(2,640)
(Decrease)/increase in other current liabilities	2,630	5,314	9,048	3,494	2,444
	(324)	250	464	1,091	(242)
<b>Net cash from operating activities</b>	<b>3,420</b>	<b>3,277</b>	<b>7,024</b>	<b>4,368</b>	<b>5,516</b>
<b>CASH FLOWS – INVESTING ACTIVITIES</b>					
Acquisition of equipment	(3,564)	(2,209)	(3,716)	(2,711)	(583)
Capitalized development costs	(5,586)	(7,035)	(10,553)	(5,681)	(3,457)
(Increase)/decrease in other non-current assets	(25)	1	(4)	(2)	–
<b>Net cash used in investing activities</b>	<b>(9,175)</b>	<b>(9,243)</b>	<b>(14,273)</b>	<b>(8,394)</b>	<b>(4,040)</b>
<b>CASH FLOWS – FINANCING ACTIVITIES</b>					
Issue of shares	5,015	4,788	–	–	–
Parent contribution to equity, net	333	3,718	5,426	2,461	386
Short-term borrowings from banks, net	1	–	(2)	(2)	–
<b>Net cash from financing activities</b>	<b>5,349</b>	<b>8,506</b>	<b>5,424</b>	<b>2,459</b>	<b>386</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(406)</b>	<b>2,540</b>	<b>(1,825)</b>	<b>(1,567)</b>	<b>1,862</b>
<b>Cash and cash equivalents</b>					
– balance at beginning of year/period	639	233	2,773	2,773	948
<b>Cash and cash equivalents</b>					
– balance at end of year/period	233	2,773	948	1,206	2,810

## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital US\$'000	Parent contribution to equity, net US\$'000	Foreign currency translation reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At January 1, 2015	411	8,925	-	-	9,336
Issue of shares	5,015	-	-	-	5,015
Parent contribution to equity, net	-	345	-	-	345
Profit for the year	-	-	-	2,704	2,704
Share based payment	-	273	-	-	273
Other comprehensive loss	-	-	(901)	-	(901)
At December 31, 2015	5,426	9,543	(901)	2,704	16,772
Issue of shares	4,788	-	-	-	4,788
Parent contribution to equity, net	-	3,743	-	-	3,743
Loss for the year	-	-	-	(911)	(911)
Share based payment	-	490	-	-	490
Other comprehensive loss	-	-	(191)	-	(191)
At December 31, 2016	10,214	13,776	(1,092)	1,793	24,691
Parent contribution to equity, net	-	5,463	-	-	5,463
Profit for the year	-	-	-	3,334	3,334
Share based payment	-	493	-	-	493
Other comprehensive income/(loss)	-	-	885	(133)	752
At December 31, 2017	10,214	19,732	(207)	4,994	34,733
Parent contribution to equity, net	-	400	-	-	400
Profit for the period	-	-	-	61	61
Share based payment	-	227	-	-	227
Other comprehensive loss	-	-	(143)	(27)	(170)
At June 30, 2018	<u>10,214</u>	<u>20,359</u>	<u>(350)</u>	<u>5,028</u>	<u>35,251</u>
Six months ended June 30, 2017 (unaudited)					
At January 1, 2017	10,214	13,776	(1,092)	1,793	24,691
Parent contribution to equity, net	-	2,482	-	-	2,482
Profit for the period	-	-	-	2,922	2,922
Share based payment	-	210	-	-	210
Other comprehensive income/(loss)	-	-	580	(96)	484
At June 30, 2017	<u>10,214</u>	<u>16,468</u>	<u>(512)</u>	<u>4,619</u>	<u>30,789</u>

## III NOTES TO HISTORICAL FINANCIAL INFORMATION

**Note 1:- General**

Telit Communications PLC (“Telit Group” or “Telit Communications” or the “Parent”) is a global leader in Internet of Things (IoT) enablement, with an extensive portfolio of wireless connectivity modules, platforms, virtual cellular IoT operator, and professional services, empowering hundreds of millions of connected “things”.

On July 12, 2018, Telit Communications agreed to sell its Automotive Business (defined in note 2(a)) to TUS International Limited (“the Company”) for a cash consideration of US\$105 million (subject to adjustments on completion and an overall cap of US\$125 million). Completion of the transaction is subject to certain conditions being satisfied.

The transaction will require a reorganization of the Automotive Business within the Telit Group and the transfer to Telit Automotive Solutions NV (the “Target Company”) of certain assets and employees who support the Automotive Business in research and development (“R&D”) and sales offices in several countries (the “Reorganization”).

The Target Company was incorporated and registered in the Kingdom of Belgium (private company limited by shares) in 2014. The registered office of the Target Company is located at 80 Interleuvenlaan, 3001 Leuven, Belgium.

As at June 30, 2018, the Target Company had a direct interest in one subsidiary (the “Subsidiary”) as set below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Target Company	Principal activities
Telit Automotive Solutions SARL	France, March 15, 2006	Euro107,874	100%	Development and presale of products

**Note 2:- Accounting policies****(a) General information**

The Automotive Business is the development, manufacture and sale of auto grade cellular modules to car OEMs or to Tier 1 suppliers for installation in cars in the assembly line and v2x modules, as carried on collectively by Telit Communications. The Automotive Business was defined by identified products which are related directly to the Automotive Business. The Target Company together with the Automotive Business and the assets and employees to be transferred as part of the Reorganization are defined as the Target Group for purposes of the Historical Information.

The purpose of the combined financial information is to provide general purpose historical financial information of the Target Group for the inclusion in a circular prepared by the Company for its shareholders in connection with the transaction described in note 1.

**(b) Basis of preparation:**

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”). All IFRSs effective for the accounting period commencing from January 1, 2018, together with the relevant transitional provisions, have been adopted by the Target Group. In accordance with the transitional provisions of IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 15 *Revenue from Contracts with Customers*, which were adopted January 1, 2018, the Target Group has not restated comparative information. The adoption of IFRS 9 and IFRS 15 had no effect on the combined financial statements (see note 2 ac).

The Target Group did not exist as a legal or statutory entity and no separate statutory accounts were therefore prepared. Accordingly, the financial information of the Target Group has been prepared on a “carve-out basis” from the Telit Communications consolidated financial statements to reflect the historical results of operations and cash flows, and the historical assets and liabilities of the Target Group as if it operated independently described in note 2(c) below.

**(c) Basis of combination**

The Target Group was under the control of Telit Communications for all of the periods presented in the Historical Information. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Periods.

During the Relevant Periods, the Target Group functioned as part of the larger group of entities and activities controlled by Telit Communications. Accordingly, for purposes of the Historical Financial Information, a process was completed to specifically identify the assets, liabilities, revenues, expenses and cash flows associated with the Target Group. The costs that were related to the larger business of Telit Communications were also assessed to allocate those costs to the Target Group. The basis for the allocation and assumptions used are described in the relevant accounting policies below.

The combined financial statements of the Target Group present the assets, liabilities, revenues, expenses and cash flows attributable to the Target Group for the Relevant Periods using the existing carrying amounts as included in Telit Communications' consolidated financial statements. No adjustments have been made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

All intra-group transactions and balances between the Target Group activities are eliminated in combination.

The management of Telit Communications believes the basis of preparation described above results in Historical Financial Information reflecting the assets, liabilities, revenues and expenses associated with the Target Group as if the Target Group operated independently. However, as the Target Group did not operate as a stand-alone entity during the Relevant Periods, the Historical Financial Information may not be indicative of the Target Group's future performance and does not necessarily reflect what the results of operations, financial position and cash flows would have been had the Target Group operated as a separate entity.

***(d) Functional and presentational currency***

The combined financial statements are presented in US dollars, which differs from the functional currency of the Target Company and of certain Automotive Business operations.

The Target Group reports in US dollars, which is the presentation currency of Telit Communications, to fully reflect the global operations of the Automotive Business.

The assets and liabilities of the operations that have a functional currency other than the US dollar are translated at the closing exchange rates prevailing at the balance sheet date. Income and expense items and cash flows are translated at the average exchange rates for the period. Exchange rate differences arising, from the translation of the abovementioned items, are recorded directly in other comprehensive income as a separate component called "translation differences". Goodwill and intangible assets arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity.

Transactions of the individual operations in currencies other than the operation's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

**(e) Revenue recognition**

Revenues of the automotive business are categorized by product and by customer in Telit Communications' accounting records. The identification of the Automotive Business revenues was performed in two stages:

In the first stage, management specifically identified all the relevant products and the related revenues.

In the second stage, management isolated products of the Automotive Business and eliminated the revenues which are non-automotive.

*Policy applicable from January 1, 2018*

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services. The Target Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

#### Revenues from the sale of goods

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The normal credit term is 30 to 90 days upon delivery.

The Target Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Target Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Some contracts provide customers with a right of return. Under IFRS 15, rights of return give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

#### Revenues from sale of services

Revenues from sale of services are recognized when the amount of revenue can be measured reliably based on the stage of completion, it is probable that economic benefits will be received and the costs incurred and costs to complete the transaction can be measured reliably.

#### *Policy applicable for periods up to December 31, 2017*

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Target Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. The Target Group sells its products and services to customers and distributors. Both are considered end-customers.

#### Revenues from the sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the customer takes goods from the Target Group's premises or its agent. In other cases, the risks and rewards are transferred when the goods are delivered to the specific location agreed with the customer.

#### Revenues from sale of services

Revenues from sale of services are recognized when the amount of revenue can be measured reliably based on the stage of completion, it is probable that economic benefits will be received and the costs incurred and costs to complete the transaction can be measured reliably.

**(f) Cost of sales**

Cost of sales include direct costs, logistics, royalties, and supplier rebates. Rebates were attributed based on specific products.

**(g) Research and development expenses**

Research and development expenses include:

- Salaries and related expenses of employees involved in the development of the Automotive Business products within the relevant Telit Communications' R&D locations.
- Direct development costs include materials, certifications, field tests, qualifications, etc. related directly to the products.
- Facilities costs include rent and related costs in the relevant Telit Communications' R&D locations.

**(h) General and administrative expenses**

General and administrative expenses include salaries, depreciation, IT expenses and other administrative expenses related to the Target Group. G&A expenses were allocated from the Telit Communications' entities that supported the Automotive Business. The allocation was based on the number of employees that supported the Automotive business in relation to the total employees in the entity.

**(i) Sales and marketing expenses**

Sales and marketing expenses include salaries and related expenses of specific employees involved in supporting the sales and marketing of the Automotive Business products. Operations department expenses were allocated by management on a sold units' basis.

**(j) Cash and cash equivalents**

Cash and cash equivalents include only the amounts from the financial statements of the Target Company and the Subsidiary which are the legal entities that are to be transferred in the Reorganization.

**(k) Other current assets**

Other current assets are comprised of the following: prepaid expenses of overhead costs, recoverable VAT, and employees' pension deposits.

**(l) Inventories**

The inventory presented is based on the Automotive Business products held in Telit Communications' different entities and includes finished goods and raw materials.

Produced finished goods are stated at the lower of cost or net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Raw materials are presented at the lower of cost or net realizable value, with cost calculated using the weighted average method.

**(m) Equipment**

Equipment includes primarily equipment and machinery related to the transferred R&D facilities and testing equipment located in a manufacturing supplier. The cost and related depreciation of certain testing equipment which is shared between the Target Group and other entities in Telit Group have been allocated between the entities.

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Depreciation is charged so as to write off the cost over the estimated useful life of the assets (between 4 and 10 years), using the straight -line method.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

**(n) Intangible assets**

Intangible assets comprise those assets which the Target Group has separately identified as to be sold to the Company.

Intangible assets with finite lives are stated at cost less accumulated amortization and impairment losses.

The capitalization of internally generated development assets includes direct costs such as salaries and related expenses and direct development costs and overhead attributed to the Automotive Business projects.

An internally generated intangible asset arising from the expenditure on development is recognized only when the Target Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Where no internally-generated intangible asset can be recognized, development costs are recognized as an expense in the period in which they are incurred.

Intangible assets are amortized on a straight-line basis over their useful lives. For internally generated intangible assets, amortization begins from the date at which such assets are available for use. Where an internally generated intangible asset is not yet available for use, it is tested for impairment annually by comparing its carrying amount with its recoverable amount.

Amortization rates are as follows:

	<b>Useful life – Years</b>
Customer relationship	4.5
Acquired technology	2.5-5
Internally developed intangible assets	5

The cost of research activities is recognized as an expense in the period in which it is incurred.

**(o) Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Target Group reviews the carrying amounts of the tangible and intangible assets (excluding goodwill) 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. Where the asset does not generate cash flows that are independent from other assets, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

**(p) *Income taxes***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognized due to temporary differences with regards to the amortization of R&D assets.

Deferred tax assets in respect of carryforward losses are recognized to the extent that it is probable that taxable profits will be available against which the losses can be utilized.

Deferred and current income taxes are recognized in the combined financial statements only in respect of the two legal entities in the Target Group (the Target Company and the Subsidiary). No income taxes have been allocated to the Automotive Business operations that are carved-out and did not operate as a separate legal entity. Since revenues of the Automotive Business may be recognized in legal jurisdictions that are different from the legal jurisdictions in which the costs and expenses are incurred, there are no supportable assumptions that can be made to provide a reasonable basis for such an allocation of income taxes.

**(r) *Trade payables***

Management included trade payable balances that were specifically related to the Automotive Business. In addition, the balance for the main Automotive Business products supplier was calculated based on external confirmations received.

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. All rebates earned are volume related and are short term in nature, with rebate earned but not yet received typically relating to the preceding quarter's trading. Rebate income is recognized in cost of sales in the statement of comprehensive income and rebate earned but not yet received is included within other current assets in the statement of financial position.

Trade payables are non-interest bearing. Trade payables are initially recognized at their fair value and subsequently measured at amortized cost.

**(s) *Post-employment benefits***

The liability for post-employment benefits included in the combined financial statements is related to specifically identified employees to be transferred as part of the Reorganization and for which the Company will assume the liability.

The liability for post-employment benefits arises from a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurement gains or losses, comprising of actuarial gains and losses, the effect of the asset ceiling and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurement are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Target Group recognizes the following changes in the net defined benefit obligation in the combined statement of comprehensive income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

**(t) *Other current liabilities***

All Automotive Business employees to be transferred as part of the Reorganization are to be transferred with continuity of rights, hence other current liabilities are comprised of provisions for paid holidays, social benefits and bonuses for those employees.

**(u) *Operating leases***

Rentals payable under operating leases are charged to statement of comprehensive income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

(v) *Financial instruments*

*Policy applicable from January 1, 2018*

Financial assets and financial liabilities are recognized in the statement of financial position when the Target Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are initially recorded at fair value.

The Target Group classifies its financial assets at amortized cost (trade receivables). The Target Group measures trade receivables at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

#### Impairment of financial assets

The Target Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Target Group applies a simplified approach in calculating ECLs. Therefore, the Target Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Target Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Target Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

*Policy applicable for periods up to December 31, 2017*

Financial assets

Trade receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as “loans and receivables”. Loans and receivables are measured at amortized cost using the effective interest method less impairment.

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where 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 investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

***Policy applicable for all reporting periods***

*De-recognition of financial assets*

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

*Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual agreements. An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. Equity instruments issued by the Target Group are recorded at the proceeds received, net of direct issue costs.

All the Target Group's financial liabilities are classified as other financial liabilities. It holds no financial liabilities "at fair value through profit or loss".

*Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

*De-recognition of financial liabilities*

The Target Group de-recognizes financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or expired.

**(w) Parent contribution to equity, net**

Parent contribution to equity, net represents the amount that was invested by Telit Group for the financing of the activities in the Target Group, net of any transfers from the Target Group to Telit Group.

The Target Group is dependent upon Telit Group for all of its working capital and financing requirements. Financial transactions relating to the Automotive Business are accounted for through the Parent contribution to equity account. Accordingly, none of Telit Communications' cash, cash equivalents or debt at the corporate level have been assigned to the Target Group in the combined financial statements.

**(x) Critical accounting judgments and key sources of estimation uncertainty***Critical accounting judgments*

In the process of applying the Target Group's accounting policies, management consider the following judgments, apart from those involving estimates on future uncertain events, which are discussed further below, to have the most significant effect on the amounts recognized in the combined financial statements.

*Amortization of internally generated development assets*

Amortization shall begin when the asset is available for use, that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortization charge for each period shall be recognized in profit or loss over the period in which the asset's future economic benefits are expected to be consumed by the entity, estimated to be 3 – 5 years.

*Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

## Recoverability of deferred tax assets

Under IFRS, a deferred tax asset arising on trading losses or deductible temporary differences is only recognized where it is probable that future taxable profits will be available to utilize the losses. The key judgments in assessing the recognition of a deferred tax asset are:

- the probability of taxable profits being available in the future; and
- the quantum of taxable profits that are forecast to arise.

This requires management to exercise judgment in forecasting future results. There are a number of assumptions and estimates involved in estimating the future results of the relevant entity in which the trading losses arose, including:

- management's expectations of growth in revenue;
- changes in operating margins;
- uncertainty of future technological developments; and
- Uncertainty over global and regional economic conditions and demand for the Target Group's services.

Changing the assumptions selected by management could significantly affect the results.

## Recoverability of internally developed intangible assets

Capitalization of development costs requires the exercise of management judgment in determining whether it is probable that future economic benefits to the business arising will exceed the amount capitalized. This requires management to estimate anticipated revenues and profits from the related products to which such development costs relate.

(y) *Changes in accounting policies*

*New/Revised standards and interpretations applied*

The Target Group applied IFRS 15 and IFRS 9 for the first time, which are effective for annual periods beginning on or after January 1, 2018.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the combined financial statements of the Target Group. The Target Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Target Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Target Group elected to apply the standard to all contracts as at January 1, 2018. The adoption of IFRS 15 had no effect on the combined financial statements.

*IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Target Group applied IFRS 9 prospectively, with an initial application date of January 1, 2018. The Target Group has not restated the comparative information, which continues to be reported under IAS 39. The adoption of IFRS 9 had no effect on the combined financial statements.

*Standards issued but not yet effective*

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Target Group's financial statements are disclosed below. The Target Group intends to adopt these standards, if applicable, when they become effective. The Target Group will assess the potential impact on its combined financial statements of these standards in 2019.

*IFRS 16 Leases (effective for annual periods beginning on or after January 1, 2019)*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of “low-value” assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize 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). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Target Group assessed the potential effect of IFRS 16 on its combined financial statements and determined it to be insignificant.

The following relevant interpretations and amendments to existing standards issued by the International Accounting Standards Board (IASB) have not been adopted by the Target Group as they are not effective for the year. The Target Group is currently assessing the impact of these interpretations and amendments will have on the presentation of, and recognition in, the combined results or financial position in future periods:

- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on December 12, 2017) (effective for accounting periods beginning on or after January 1, 2019).
- IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments (effective for accounting periods beginning on or after January 1, 2019).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for accounting periods beginning on or after January 1, 2019).

**Note 3:- Operating segment information and revenues**

a. General:

No operating segment information is presented as the Target Group consists of only one operating segment – the Automotive Business.

- b. The Target Group product portfolio includes automotive-grade wireless connectivity modules with various network technologies. Disaggregation of revenues by major product:

	Year ended December 31			Six months ended June 30	
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2017 US\$'000 (unaudited)	2018 US\$'000
2G	14,831	10,077	4,028	1,374	83
3G	15,658	17,658	44,150	18,291	26,946
4G	252	3,313	10,685	3,566	6,589
Others	527	880	4,295	2,467	564
	<u>31,268</u>	<u>31,928</u>	<u>63,158</u>	<u>25,698</u>	<u>34,182</u>

- c. Revenues by geographical areas:

	Year ended December 31			Six months ended June 30	
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2017 US\$'000 (unaudited)	2018 US\$'000
Asia Pacific	3,883	6,839	10,028	5,573	5,145
Germany	17,705	20,378	41,002	16,189	23,943
Rest of Europe	9,150	1,357	1,405	555	291
North America	530	3,354	10,723	3,381	4,803
	<u>31,268</u>	<u>31,928</u>	<u>63,158</u>	<u>25,698</u>	<u>34,182</u>

The revenue information above is based on the locations of the customers.

- d. Information about major customers:

	Year ended December 31			Six months ended June 30	
	2015 % of total revenue	2016 % of total revenue	2017 % of total revenue	2017 % of total revenue (unaudited)	2018 % of total revenue
Revenues from major customers which each accounts for 10% or more of total revenues reported in the financial statements:					
Customer A	8%	30%	37%	38%	53%
Customer B	1%	2%	21%	19%	15%
Customer C	0%	10%	10%	12%	6%
Customer D	11%	17%	7%	11%	3%
Customer E	46%	31%	7%	5%	0%
Customer F	25%	0%	0%	0%	0%
Others	9%	10%	18%	15%	23%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

- e. Non-current assets (equipment) are based mostly in Asia.

**Note 4:- Additional details to profit and loss**

	Year ended December 31			Six months ended June 30	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(unaudited)	
Cost of goods and services sold	21,610	22,337	45,451	16,900	26,997
Total staff costs	7,756	8,034	11,879	5,749	5,370
Share-based payment charges	273	490	493	210	227
Other operating expenses	-	-	-	-	157
Loss on sale of equipment	-	361	49	16	125
Amortization of intangible assets acquired	1,410	1,409	1,437	689	726
Depreciation	1,278	1,759	2,697	1,212	1,326
Amortization of internally generated intangible assets	29	733	1,649	733	1,781

**Note 5:- Research and development expenses**

	Year ended December 31			Six months ended June 30	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(unaudited)	
R&D Salaries	6,217	6,518	9,739	4,745	4,138
Development expenses	1,267	2,694	3,508	1,636	627
Other expenses	1,071	1,225	1,471	742	608
Capitalization	(5,584)	(7,035)	(10,553)	(5,681)	(3,457)
	<u>2,971</u>	<u>3,402</u>	<u>4,165</u>	<u>1,442</u>	<u>1,916</u>

**Note 6:- Inventories**

	As at December 31			As at June 30	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(unaudited)	
Finished goods	2,225	2,235	1,287	3,887	
Raw materials and work in progress	-	116	1,605	1,645	
	<u>2,225</u>	<u>2,351</u>	<u>2,892</u>	<u>5,532</u>	

**Note 7:- Trade receivables**

Receivables as presented under current assets mature within one year. Trade receivables are non-interest bearing and are generally on 30-90 day terms.

The aging of the trade receivables based on invoice date is as follows:

	Total US\$'000	Neither past due nor impaired US\$'000	Past due but not impaired		
			1-30 days US\$'000	30-60 days US\$'000	Above 60 days US\$'000
As per June 30, 2018	16,444	12,765	2,833	621	225
As per December 31, 2017	19,241	16,407	2,638	196	-
As per December 31, 2016	7,495	6,839	656	-	-
As per December 31, 2015	2,986	2,712	245	29	-

Target Group management consider that the carrying amount of trade receivables approximates their fair value.

**Note 8:- Other current assets**

	As at December 31			As at June 30
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000
Prepaid expenses	416	925	473	206
VAT	153	192	140	94
Tax authorities	442	606	679	715
Income to receive	-	-	172	168
	<u>1,011</u>	<u>1,723</u>	<u>1,464</u>	<u>1,183</u>

**Note 9:- Internally generated intangible assets and intangible assets acquired**

	<b>Internally generated intangible assets</b>	<b>Acquired Technology</b>	<b>Customer relationships</b>	<b>Goodwill</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost:					
Balance at January 1, 2015	3,566	4,254	1,785	985	10,590
Additions during the year	5,584	-	-	-	5,584
Exchange differences	-	(439)	(185)	(102)	(726)
Balance at December 31, 2015	<u>9,150</u>	<u>3,815</u>	<u>1,600</u>	<u>883</u>	<u>15,448</u>
Accumulated amortization:					
Balance at January 1, 2015	-	-	-	-	-
Additions during the year	(29)	(937)	(473)	-	(1,439)
Exchange differences	-	18	9	-	27
Balance at December 31, 2015	<u>(29)</u>	<u>(919)</u>	<u>(464)</u>	<u>-</u>	<u>(1,412)</u>
Net book value at December 31, 2015	<u><u>9,121</u></u>	<u><u>2,896</u></u>	<u><u>1,136</u></u>	<u><u>883</u></u>	<u><u>14,036</u></u>
	<b>Internally generated intangible assets</b>	<b>Acquired Technology</b>	<b>Customer relationships</b>	<b>Goodwill</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost:					
Balance at January 1, 2016	9,150	3,815	1,600	883	15,448
Additions during the year	7,035	-	-	-	7,035
Exchange differences	-	(121)	(51)	(28)	(200)
Balance at December 31, 2016	<u>16,185</u>	<u>3,694</u>	<u>1,549</u>	<u>855</u>	<u>22,283</u>
Accumulated amortization:					
Balance at January 1, 2016	(29)	(919)	(464)	-	(1,412)
Additions during the year	(733)	(930)	(479)	-	(2,142)
Exchange differences	-	74	38	-	112
Balance at December 31, 2016	<u>(762)</u>	<u>(1,775)</u>	<u>(905)</u>	<u>-</u>	<u>(3,442)</u>
Net book value at December 31, 2016	<u><u>15,423</u></u>	<u><u>1,919</u></u>	<u><u>644</u></u>	<u><u>855</u></u>	<u><u>18,841</u></u>

	Internally generated intangible assets <i>US\$'000</i>	Acquired Technology <i>US\$'000</i>	Customer relationships <i>US\$'000</i>	Goodwill <i>US\$'000</i>	Total <i>US\$'000</i>
Cost:					
Balance at January 1, 2017	16,185	3,694	1,549	855	22,283
Additions during the year	10,553	–	–	–	10,553
Exchange differences	–	508	214	118	840
Balance at December 31, 2017	<u>26,738</u>	<u>4,202</u>	<u>1,763</u>	<u>973</u>	<u>33,676</u>
Accumulated amortization:					
Balance at January 1, 2017	(762)	(1,775)	(904)	–	(3,441)
Additions during the year	(1,649)	(949)	(488)	–	(3,086)
Exchange differences	–	(303)	(155)	–	(458)
Balance at December 31, 2017	<u>(2,411)</u>	<u>(3,027)</u>	<u>(1,547)</u>	<u>–</u>	<u>(6,985)</u>
Net book value at December 31, 2017	<u><u>24,327</u></u>	<u><u>1,175</u></u>	<u><u>216</u></u>	<u><u>973</u></u>	<u><u>26,691</u></u>
Internally generated intangible assets					
	Internally generated intangible assets <i>US\$'000</i>	Acquired Technology <i>US\$'000</i>	Customer relationships <i>US\$'000</i>	Goodwill <i>US\$'000</i>	Total <i>US\$'000</i>
Cost:					
Balance at January 1, 2018	26,737	4,202	1,763	973	33,675
Additions during the year	3,458	–	–	–	3,458
Exchange differences	–	(117)	(49)	(27)	(193)
Balance at June 30, 2018	<u>30,195</u>	<u>4,085</u>	<u>1,714</u>	<u>946</u>	<u>36,940</u>
Accumulated amortization:					
Balance at January 1, 2018	(2,411)	(3,027)	(1,547)	–	(6,985)
Additions during the period	(1,781)	(508)	(218)	–	(2,507)
Exchange differences	–	103	51	–	154
Balance at June 30, 2018	<u>(4,192)</u>	<u>(3,432)</u>	<u>(1,714)</u>	<u>–</u>	<u>(9,338)</u>
Net book value at June 30, 2018	<u><u>26,003</u></u>	<u><u>653</u></u>	<u><u>–</u></u>	<u><u>946</u></u>	<u><u>27,602</u></u>

**Note 10:- Equipment****a. Composition:**

	<b>Equipment</b> <i>US\$'000</i>
Net book value at January 1, 2015	2,268
Additions during the year	3,564
Disposals during the year	–
Depreciations during the year	(1,266)
Other comprehensive income – translation	<u>(202)</u>
Net book value at December 31, 2015	<u><u>4,364</u></u>
Net book value at January 1, 2016	4,364
Additions during the year	2,209
Disposals during the year	(361)
Depreciations during the year	(1,734)
Other comprehensive income – translation	<u>(103)</u>
Net book value at December 31, 2016	<u><u>4,375</u></u>
Net book value at January 1, 2017	4,375
Additions during the year	3,716
Disposals during the year	(49)
Depreciations during the year	(2,661)
Other comprehensive income – translation	<u>503</u>
Net book value at December 31, 2017	<u><u>5,884</u></u>
Net book value at January 1, 2018	5,884
Additions during the period	583
Disposals during the period	(125)
Depreciations during the period	(1,312)
Other comprehensive income – translation	<u>(104)</u>
Net book value at June 30, 2018	<u><u>4,926</u></u>

**Note 11:- Deferred tax assets**

Deferred tax assets relate to the following:

	As at December 31			As at June 30
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000
Loss carry forwards	1,357	2,246	3,018	4,529
Pension liability	–	–	46	45
Temporary taxable differences	–	–	(550)	(695)
Net deferred tax assets	<u>1,357</u>	<u>2,246</u>	<u>2,514</u>	<u>3,879</u>

Reconciliation of deferred tax assets net:

	As at December 31			As at June 30
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000
Opening balance as at January 1	–	1,357	2,246	2,514
Recognition of loss carry forwards	1,357	889	772	1,511
Pension liability	–	–	46	(1)
Temporary taxable differences	–	–	(550)	(145)
Closing balance as at December 31/June 30	<u>1,357</u>	<u>2,246</u>	<u>2,514</u>	<u>3,879</u>

**Note 12:- Post-employment benefits**

- A. The Target Group sponsors a partially funded Defined Benefit Plan in Korea. The plan provides a benefit to employees on leaving employment. The benefit is determined regarding the employee's salary and service at the time of leaving employment. The Target Group's liability for severance pay for Korea resident employees is calculated pursuant to the local severance pay law, based on the most recent salaries and term of employment. The actuarial present value of the related current service cost and curtailment loss was measured using the traditional unit credit method. The Target Group deposits amounts periodically in the defined benefit plan. The liability as of June 30, 2018 amounts to US\$141 (2017: US\$141, 2016: US\$88, 2015: US\$81).
- B. The Target Group's liability for severance pay for its Germany and Belgium resident employees, as of June 30, 2018 amount to US\$689 (2017: US\$667, 2016: US\$438, 2015: US\$339).

- C. The Target Group's liability for severance pay for Israeli resident employees is calculated pursuant to the Israeli Severance Pay Law, based on the most recent salaries and term of employment, and is covered by payments to insurance companies and pension funds. Amounts accumulated in the insurance companies and pension funds are not included in the financial statements since the Target Group bears no material actuarial risk.

**Note 13:- Trade payables**

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at December 31		As at June 30	
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000
Within 1 month	3,213	8,652	11,314	13,834
1 to 2 months	1,767	2,318	5,451	5,107
2 to 3 months	<u>3,194</u>	<u>2,519</u>	<u>5,756</u>	<u>6,034</u>
	<u>8,174</u>	<u>13,489</u>	<u>22,521</u>	<u>24,975</u>

**Note 14:- Accruals and other current liabilities**

	As at December 31		As at June 30	
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000
Accrued salaries and other employee related costs	803	1,008	1,457	1,113
Accrued expenses	<u>66</u>	<u>111</u>	<u>126</u>	<u>228</u>
	<u>869</u>	<u>1,119</u>	<u>1,583</u>	<u>1,341</u>

**Note 15:- Five highest paid employees and key management personal compensation**

The five highest paid employees during the years included employees and key management. Details of the remuneration for the year of the five highest paid employees who are neither a director nor chief executive of the Target Group are as follows:

	Year ended December 31			Six months ended June 30	
	2015 US\$'000	2016 US\$'000	2017 US\$'000	2017 US\$'000 (Unaudited)	2018 US\$'000
Salaries, allowances and benefits	808	834	820	406	431
Performance related bonuses	81	81	220	110	103
Share-based compensation	<u>141</u>	<u>221</u>	<u>154</u>	<u>72</u>	<u>101</u>
	<u>1,030</u>	<u>1,136</u>	<u>1,194</u>	<u>588</u>	<u>635</u>

The number of highest paid employees whose remuneration fell within the following bands is as follows:

**Number of employees and key management**

	Year ended December 31			Six months ended June 30	
	2015	2016	2017	2017 (Unaudited)	2018
Nil to US\$126,000 (equivalent to nil to HK\$1,000,000)	-	-	-	4	3
US\$126,000 to US\$189,000 (equivalent to HK\$1,000,001 to HK\$1,500,000)	3	2	1	1	2
US\$189,000 to US\$252,000 (equivalent to HK\$1,500,001 to HK\$2,000,000)	1	2	3	-	-
US\$252,000 to US\$315,000 (equivalent to HK\$2,000,001 to HK\$2,500,000)	1	-	1	-	-
US\$315,000 to US\$378,000 (equivalent to HK\$2,500,001 to HK\$3,000,000)	-	1	-	-	-
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

**Note 16:- Share capital of target company**

	As at December 31			As at	As at December 31			As at
	2015	2016	2017	June 30	2015	2016	2017	June 30
	Number of shares	Number of shares	Number of shares	Number of shares	Share capital	Share capital	Share capital	Share capital
Ordinary shares, fully paid	<u>485,000</u>	<u>930,000</u>	<u>930,000</u>	<u>930,000</u>	<u>5,426</u>	<u>10,214</u>	<u>10,214</u>	<u>10,214</u>

**Note 17:- Parent contribution to equity, net**

Parent contribution to equity, net represents the amount that was invested by Telit Group for the financing of the activities in the Target Group, net of any transfers from the Target Group to Telit Group.

No dividends have been paid by the Target Group in respect of the Relevant Periods.

**Note 18:- Commitments and contingencies*****Operating lease commitments – Target Group as a lessee***

The Target Group has entered into operating leases on buildings, with lease terms between 0.5 and 5 years. The Target Group has the option, under some of its leases, to lease the assets for additional terms of 3 to 5 years.

The Target Group has entered into operating leases on vehicles, with lease terms between 3 and 5 years. For certain geographical areas the lease commitment on vehicles is not included due to the option to cancel for an immaterial nominal penalty.

Future minimum leases payable under non-cancellable operating leases are, as follows:

	As at December 31			As at
	2015	2016	2017	June 30
	US\$'000	US\$'000	US\$'000	2018
				US\$'000
Within one year	504	269	585	570
After one year but not more than five years	<u>309</u>	<u>56</u>	<u>1,459</u>	<u>1,157</u>
	<u>813</u>	<u>325</u>	<u>2,044</u>	<u>1,727</u>

**Note 19:- Financial risk management**

Financial risk management is an integral part of the way the Target Group is managed. It is the Target Group's policy that no trading in financial instruments is undertaken.

In the course of its business the Target Group is exposed mainly to financial market risks and credit risks. Financial market risks are essentially caused by exposure to foreign currencies.

***Foreign currency risk***

The Target Group operates in a wide number of geographic areas. Foreign exchange exposure arises where the Target Group's operations transact in a currency different from their functional currency. The impact on our operating profits is not material.

***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Target Group, and arises principally from the Target Group's trade receivables.

The Target Group's trade receivables are derived from sales to customers in Europe, Asia Pacific and North America. The Target Group performs ongoing credit evaluations of its customers and has not experienced any material bad debts during the Relevant Periods. Allowance for doubtful accounts is determined with respect to those amounts that the Target Group has determined to be doubtful from collection.

Credit risk associated with the Target Group's cash and cash equivalents is managed by placing funds on deposit with internationally recognised banks with suitable credit ratings.

The carrying amount of financial assets recorded in the statements of financial position, net of any allowances for losses, represents the Target Group's maximum exposure to credit risk.

***Fair value of financial instruments***

The financial instruments held by the Target Group are primarily comprised of non-derivative assets and liabilities (non-derivative assets include cash and cash equivalents, trade and other receivables; non-derivative liabilities include short-term bank borrowings, trade and other payables and other current liabilities). Due to the short-term maturities of these financial instruments, management has assessed that the fair value of these financial instruments approximate their carrying amount.

**Note 20:- Subsequent financial statements**

No audited financial statements have been prepared by any of the companies now comprising the Target Group in respect of any period subsequent to June 30, 2018.

*The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with other information included elsewhere in this circular.*

**A. PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

The following is the illustrative and unaudited pro forma financial information of the Enlarged Group in connection with the Acquisition by the Group. Details of the Acquisition are set out in the section headed “LETTER OF THE BOARD” contained in this Circular. The unaudited pro forma financial information presented below is prepared to illustrate (i) the consolidated statement of financial position of the Enlarged Group as at 30 June 2018 as if the Acquisition has been completed on 30 June 2018; and (ii) the consolidated statement of profit or loss and other comprehensive income and the consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2017 as if the Acquisition had been completed on 1 January 2017.

The unaudited pro forma financial information of the Enlarged Group has been prepared in accordance with Paragraph 4.29 of the Listing Rules and has been prepared by the Directors of the Company for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the Acquisition Agreement. The unaudited pro forma financial information was prepared based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position or results of the Enlarged Group had the Acquisition been completed as of the specified dates or any future date.

The unaudited pro forma consolidated statement of financial position as of 30 June 2018 is prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as of 30 June 2018 extracted from the interim report of the Company for the six months ended 30 June 2018, rounded to nearest HK\$’000; and (ii) the consolidated statement of financial position of the Target Group as of 30 June 2018 extracted from the Accountants’ Report on the Target Group set out in Appendix III to this Circular, after making pro forma adjustments to the Acquisition, as if the Acquisition had completed on 30 June 2018.

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**APPENDIX IV                      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP**

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The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2017 are prepared based on (i) the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2017 extracted from the annual report of the Company for the year ended 31 December 2017, rounded to nearest HK\$'000; and (ii) the combined statement of comprehensive income and the combined statement of cash flows of the Target Group for the year ended 31 December 2017 extracted from the Accountants' Report on the Target Group set out in Appendix III to this Circular, after making pro forma adjustments to the Acquisition, as if the Acquisition had completed on 1 January 2017.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group set out in the annual report of the Company for the year ended 31 December 2017, the interim report of the Company for the six months ended 30 June 2018 and other financial information contained in this Circular.

## B. UNAUDITED PRO FORMA FINANCIAL INFORMATION

## 1. Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group

	Consolidated statement of profit or loss and other comprehensive income of the Group for year ended 31 December 2017 HK\$'000 (Note 1)	Combined statement of comprehensive income of the Target Group for the year ended 31 December 2017 HK\$'000 (Note 2)	Note	Pro forma adjustment for the Acquisition HK\$'000	Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2017 HK\$'000
Revenue	202,693	492,632			695,325
Cost of sales	(175,976)	(354,518)			(530,494)
<b>Gross profit</b>	26,717	138,114			164,831
Other revenue	4,236	-			4,236
Other gains and losses	(5,180)	-			(5,180)
Research and development Expenses	(5,121)	(32,487)			(37,608)
Selling and distribution Expenses	(2,779)	(24,086)			(26,865)
Administration expenses	(70,532)	(57,619)	5	(21,957)	(162,307)
Finance costs	(23,824)	-	6	(12,199)	(23,824)
Share of loss of an associate	(3,430)	-			(3,430)
Share of loss of a joint venture	(934)	-			(934)
<b>(Loss)/profit before taxation</b>	(80,847)	23,922			(91,081)
Taxation	10,323	2,083	5	6,495	18,901
<b>Loss for the year</b>	(70,524)	26,005			(72,180)
<b>Other comprehensive profit/(loss) for the year, net of income tax</b>					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of financial statements of foreign operations	4,654	6,903			11,557
Share of exchange differences on investment in an associate	39	-			39
Share of exchange differences on investment in a joint venture	5	-			5
Remeasurement loss on defined benefit plan	-	(1,037)			(1,037)
Other comprehensive profit for the year	4,698	5,866			10,564
<b>Total comprehensive (loss)/ profit for the year</b>	(65,826)	31,871			(61,616)

## 2. Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2018 HK\$'000 (Note 3)	Combined statement of financial position of the Target Group as at 30 June 2018 HK\$'000 (Note 2)	Note	Pro forma adjustment for the Acquisition HK\$'000	Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2018 HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	24,945	38,423			63,368
Construction in progress	3,496	–			3,496
Deposit	47,421	–			47,421
Finance lease receivables	37,779	–			37,779
Intangible assets	54,671	215,296	4(ii)	151,765	421,732
Goodwill	164,773	–	4(i)	291,002	455,775
Interest in an associate	5,592	–			5,592
Interest in a joint venture	935	–			935
Financial assets at fair value through other comprehensive income	416,841	–			416,841
Other non-current assets	–	218			218
Deferred tax assets	–	30,256			30,256
	<u>756,453</u>	<u>284,193</u>			<u>1,483,413</u>
<b>Current assets</b>					
Inventories	105,400	43,150			148,550
Trade and bills receivables, prepayments and other receivables	259,842	137,490			397,332
Finance lease receivables	100,810	–			100,810
Pledged bank deposits	54,940	–			54,940
Cash and cash equivalents	148,207	21,918	6 4(i)	(12,199) (672,836)	(514,910)
	<u>669,199</u>	<u>202,558</u>			<u>186,722</u>
<b>Current liabilities</b>					
Trade and bills payables and other payables	295,609	205,319			500,928
Current tax payables	464	–			464
Borrowings	146,878	–			146,878
	<u>442,951</u>	<u>205,319</u>			<u>648,270</u>
Net current assets/(liabilities)	<u>226,248</u>	<u>(2,761)</u>			<u>(461,548)</u>
Total assets less current liabilities	<u>982,701</u>	<u>281,432</u>			<u>1,021,865</u>

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UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE ENLARGED GROUP

	Unaudited condensed consolidated statement of financial position of the Group as at 30 June 2018 <i>HK\$'000</i> <i>(Note 3)</i>	Combined statement of financial position of the Target Group as at 30 June 2018 <i>HK\$'000</i> <i>(Note 2)</i>	Note	Pro forma adjustment for the Acquisition <i>HK\$'000</i>	Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2018 <i>HK\$'000</i>
<b>Non-current liabilities</b>					
Deferred tax liabilities	7,093	–	4(ii)	44,889	51,982
Convertible bonds	376,508	–			376,508
Post-employment benefit	–	6,474			6,474
	<u>383,601</u>	<u>6,474</u>			<u>434,964</u>
<b>Net assets</b>	<u>599,100</u>	<u>274,958</u>			<u>586,901</u>
<b>Capital and reserves</b>					
Share capital	12,232	79,669	4(i) 6	(79,669) (12,199)	12,232
Reserves	<u>546,656</u>	<u>195,289</u>	4(i)	(195,289)	<u>534,457</u>
Equity attributable to owners of the company	558,888	274,958			546,689
Non-controlling interests	<u>40,212</u>	–			<u>40,212</u>
<b>Total equity</b>	<u>599,100</u>	<u>274,958</u>			<u>586,901</u>

## 3. Unaudited pro forma consolidated statement of cash flow of the Enlarged Group

	Consolidated statement of cash flows of the Group for the year ended 31 December 2017 HK\$'000 (Note 1)	Combined statement of cash flows of the Target Group for the year ended 31 December 2017 HK\$'000 (Note 2)	Note	Pro forma adjustment for the Acquisition HK\$'000	Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2017 HK\$'000
<b>Operating activities</b>					
(Loss)/profit before taxation	(80,846)	23,922	5 6	(21,957) (12,199)	(91,081)
Adjustment for:					
Depreciation for property, plant and equipment	6,081	21,037			27,118
Amortisation of intangible assets	1,913	24,071	5	21,957	47,941
Finance costs	23,824	-			23,824
Bank interest incomes	(2,274)	-			(2,274)
Share of loss of an associate	3,430	-			3,430
Share of loss of a joint venture	934	-			934
Loss on disposal of property, plant and equipment	2,232	382			2,614
Increase in provision for post-employment benefit	-	1,162			1,162
Impairment loss recognized on finance lease receivables	1,857	-			1,857
Impairment loss recognized on intangible assets	3,581	-			3,581
Share based payments	10,161	3,845			14,006
Operating (loss)/profit before changes in working capital	(29,107)	74,419			33,112
Increase in inventories	(7,240)	(4,220)			(11,460)
Increase in trade and bills receivables, prepayment and deposits	(15,464)	(89,606)			(105,070)
Increase in finance lease receivables	(89,751)	-			(89,751)
Decrease in trade and bills payable and other payables	54,145	74,194			128,339
Cash used in/(generated from) operations	(87,417)	54,787			(44,830)
Income tax paid	(506)	-			(506)

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	Consolidated statement of cash flows of the Group for year ended 31 December 2017 HK\$'000 (Note 1)	Combined statement of cash flows of the Target Group for the year ended 31 December 2017 HK\$'000 (Note 2)	Note	Pro forma adjustment for the Acquisition HK\$'000	Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2017 HK\$'000
<b>Net cash (used in)/generated from operating activities</b>	<u>(87,923)</u>	<u>54,787</u>			<u>(45,336)</u>
<b>Investing activities</b>					
Purchase of property, plant and equipments	(11,514)	(28,985)			(40,499)
Payment for construction in progress	(2,158)	-			(2,158)
Purchase of intangible assets	(42,026)	(82,313)			(124,339)
Bank interest received	2,274	-			2,274
Purchase of available-for-sale investments	(78,160)	-			(78,160)
Investment in a joint venture	(1,541)	-			(1,541)
Net cash outflow on acquisition of subsidiaries	(131,807)	-	7	(651,207)	(783,014)
Placement of pledged bank deposits	<u>(63,178)</u>	<u>(31)</u>			<u>(63,209)</u>
Net cash used in investing activities	<u>(328,110)</u>	<u>(111,329)</u>			<u>(1,090,646)</u>
<b>Financing activities</b>					
Capital contribution from shareholder	-	42,323			42,323
Proceeds from bank loans	10,567	-			10,567
Repayment of bank loans	(14,169)	(16)			(14,185)
Proceeds from other loans	10,168	-			10,168
Repayment of other loans	(10,299)	-			(10,299)
Finance costs paid	(11,926)	-			(11,926)
Proceeds from issuing of convertible bonds	300,000	-			300,000
Payment for transactions costs attributable to issuing of convertible bond	(1,500)	-			(1,500)
Capital injection from non-controlling interests	<u>47,069</u>	<u>-</u>			<u>47,069</u>
Net cash generated from financing activities	<u>329,910</u>	<u>42,307</u>			<u>372,217</u>
Net decrease in cash and cash equivalents	(86,123)	(14,235)			(763,765)
Effect of foreign exchange rate changes	5,787	-			5,787
Cash and cash equivalents as at 1 January	<u>143,782</u>	<u>21,629</u>	7	(21,629)	<u>143,782</u>
Cash and cash equivalents as at 31 December	<u><u>63,446</u></u>	<u><u>7,394</u></u>			<u><u>(614,196)</u></u>

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**C. NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED INFORMATION TO  
THE ENLARGED GROUP**

1. The balance was extracted from the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2017 as set out in the annual report of the Company for the year ended 31 December 2017, rounded to nearest thousands.
2. The balance was extracted from the audited combined statement of comprehensive income, audited combined statement of financial position and audited combined statement of cash flows of the Target Group as set out in accountant report of the Target Company as set out in appendix III of the circular, and translated US\$ into HK\$ base on exchange rate US\$1.00 to HK\$7.80 and rounded to nearest thousands.
3. The balance was extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2018 as set out in the interim report of the Group for the six months ended 30 June 2018, rounded to nearest thousands.
4. Upon completion of the Acquisition, the Group will hold the entire issued share capital of Target Company, the identified assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values as required by the acquisition method in accordance with HKFRS 3 (Revised) “Business Combination”. For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have estimated the fair value of the identifiable assets and liabilities of Target Company based on the assumption that the Acquisition was completed on 30 June 2018 or 1 January 2017, as appropriate.

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(i) The details of goodwill arising from acquisition is as follows:

	<i>Note</i>	<i>US\$'000</i>	<i>HK\$'000</i> <i>(Note (a))</i>
Consideration		105,000	819,000
Adjust for:			
Completion Cash	<i>(iii)</i>	2,838	22,136
Completion Debt	<i>(iv)</i>	(27,463)	(214,211)
Completion Working Capital	<i>(v)</i>	5,386	42,011
Target Working Capital	<i>(vi)</i>	–	–
Transfer Costs	<i>(vii)</i>	<u>500</u>	<u>3,900</u>
Adjusted consideration		86,261	672,836
Fair value of identified assets and liabilities	<i>(ii)</i>	(54,708)	(426,723)
Deferred tax liabilities arising from Acquisition	<i>(ii)(b)</i>	<u>5,755</u>	<u>44,889</u>
Goodwill arising on Acquisition	<i>(viii)</i>	<u><u>37,308</u></u>	<u><u>291,002</u></u>

(a) The amount translated into HK\$ base on exchange rate US\$1.00 to HK\$7.80 and rounded to nearest thousands.

(ii) The details of fair values adjustment of the identified assets and liabilities of the Target Group are as follows:

		Fair value as at 30 June 2018 <i>US\$'000</i>	Carrying amount as at 30 June 2018 <i>US\$'000</i>	Fair value adjustment as at 30 June 2018 <i>US\$'000</i>	Fair value adjustment as at 30 June 2018 <i>HK\$'000</i>
Intangible assets	<i>(a), (c)</i>	47,059	27,602	19,457	151,765
Deferred tax liabilities	<i>(b), (c)</i>	–	–	(5,755)	(44,889)
Fair value of other assets and liabilities	<i>(a), (c)</i>	<u>7,649</u>	<u>7,649</u>	–	–
		<u><u>54,708</u></u>	<u><u>35,251</u></u>	<u><u>13,702</u></u>	<u><u>106,876</u></u>

- (a) The fair value of identified assets and liabilities of the Target Group was determined reference to the valuation report provided by an independent professional valuer.
- (b) Deferred tax liabilities of approximately US\$5,755,000 (equivalents to approximately HK\$44,889,000 base on exchange rate US\$1.00 to HK\$7.80) is provided on the fair value adjustments on certain intangible assets as set out above in aggregate of approximately US\$19,457,000 (equivalents to approximately HK\$151,765,000 base on exchange rate US\$1.00 to HK\$7.80) at the Target Group's subsidiaries statutory tax rate.
- (c) The amount translated into HK\$ base on exchange rate US\$1.00 to HK\$7.80 and rounded to nearest thousands.
- (iii) The amount represents aggregate amount of cash held by or on behalf of the Target Group as at date of completion of Acquisition. For the purpose of preparing unaudited pro forma financial information, the directors estimated the amount based on the assumption that the Acquisition was completed on 30 June 2018. The amount subject to the completion account to be issue.
- (iv) The amount represents the aggregate amount of debts of the Target Group and any financial indebtedness owing, accrued or payable by the Target Group to a member of the Telit Group ("Telit Communications PLC and its subsidiaries") (other than a member of the Target Group) as at date of completion of the Acquisition. For the purpose of preparing Unaudited Pro Forma Financial Information, the directors estimated the amount based on the assumption that the Acquisition was completed on 30 June 2018. The amount subject to the completion account to be issue.
- (v) The amount represents the aggregate value of the current assets of the Target Group excluding items which are part of Completion Cash as at date of completion of Acquisition, less the aggregate value of the current liabilities of the Target Group excluding the items which are part of Completion Debt as at the date of completion of Acquisition. For the purpose of preparing Unaudited Pro Forma Financial Information, the directors estimated the amount based on the assumption that the Acquisition was completed on 30 June 2018. The amount subject to the completion account to be issue.
- (vi) The amount was US\$0, being the amount agreed by the both vendor and the Group, to be the target working capital of the Target Group at date of completion of Acquisition.

- (vii) The amounts represents taxes up to a maximum of US\$500,000 relating to the Reorganisation (which is set out the section headed “Reorganisation” of the “Letter from the Board” of this circular) to the extent that such taxes would normally fall to the Company; and any amounts incurred by the Target Company, Telit France or the Reorganisation Sellers (as defined certain subsidiaries of Telit Communications, which collectively hold certain of the Assets and the Business as at the completion date of Acquisition) at the request or with the consent of the Company. The amount subject to the completion account to be issue.
- (viii) Goodwill arising from the Acquisition, being the excess of total consideration paid/payable over the fair value of the identifiable net assets of the Target Group, is attributable to non-recognised technical know-how, and assumable workforce from the Target Group and synergy effect after acquisition. None of the goodwill recognised is expected to be deductible for income tax purpose. In addition, the Directors are of the view that the goodwill would not have any future impact on the cash flow of the Enlarged Group.

For the purpose of preparation of the unaudited pro forma financial information, the management has assessed whether goodwill may be impaired on a pro forma basis in accordance with Hong Kong Accounting Standard (“HKAS”) 36 “Impairment of Assets” issued by the HKICPA. The Target Group is identified as a distinct cash generating unit (the “CGU”) for which goodwill is allocated to. The recoverable amount of the CGU has been determined based on a value in use calculation of the Target Group and reference to the valuation report prepared by an independent professional valuer.

Based on the result of impairment test of goodwill, the management assessed that the pro forma recoverable amount of the CGU is determined to be higher than the pro forma carrying amount of the CGU, including goodwill, and hence there is no pro forma impairment loss identified in respect of goodwill. The Directors confirm that they will apply consistent accounting policies and principal assumptions for the annual assessment of impairment of goodwill in the preparation of the consolidated financial statements of the Group after the completion of the Proposed Acquisition as required under HKAS 36.

5. The amount represents additional amortisation and deferred taxation of approximately US\$2,815,000 and US\$833,000 (equivalents to approximately HK\$21,957,000 and HK\$6,495,000 respectively base on exchange rate US\$1.00 to HK\$7.80 and rounded to nearest thousands) in relation to the fair value adjustment of intangible assets as disclosed in note 4(ii) above.
6. The adjustment represents the estimated acquisition-related costs of approximately HK\$12,199,000, which would be recognised in profit or loss. The adjustment has no continuing effect on the consolidated assets and liabilities of the Enlarged Group in subsequent years.
7. The adjustment represents pro forma cash flow items to reflect the net cash paid for the Acquisition amounting to approximately HK\$651,207,000, as represented by the cash and cash equivalents of the Target Group at the end of its preceding accounting period amounted to approximately US\$2,773,000 (equivalent to approximately HK\$21,629,000) to be consolidated into the Enlarged Group on the acquisition date on 1 January 2017, net off with the Adjusted Consideration (as detailed in note 4(i) above) assumed as paid during the year ended 31 December 2017. The net cash paid for the Acquisition is expected to be financed by fund raising activities of the Group.
8. Apart from the above, no other adjustments have been made to the unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading result or other transactions of the Enlarged Group entered into subsequent to 31 December 2017, where applicable.

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*The following is the text of a report, prepared for inclusion in this document, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.*



**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

26 December 2018

**TO THE DIRECTORS OF TUS INTERNATIONAL LIMITED**

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION  
INCLUDED IN AN INVESTMENT CIRCULAR**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of TUS International Limited. (the "Company") and its subsidiaries (together referred as the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2018, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2017, the unaudited pro forma consolidated statement of cash flow for the year ended 31 December 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-12 of the investment circular issued by the Company. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described in Part A to C of Appendix IV to the circular.

The pro forma financial information has been compiled by the directors to illustrate the impact of the proposed acquisition of all of the issued shares of Telit Automotive Solutions NV (the "Target Company") (the "Proposed Acquisition") on the Group's financial position as at 30 June 2018 and the Group's financial performance and cash flows for the year ended 31 December 2017 as if the Proposed Acquisition had taken place at 30 June 2018 and 1 January 2017 respectively. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's interim financial statements for the six months ended 30 June 2018, on which no audit or review report has been published. The information about the Group's financial performance and cash flows has been extracted by the directors from the Group's annual financial statements for the year ended 31 December 2017, on which an audit report has been published.

### **Directors' Responsibility for the Pro Forma Financial Information**

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, 'Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars' ("AG7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus', issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

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The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2018 or 1 January 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

**HLB Hodgson Impey Cheng Limited**

Certified Public Accountants

**Shek Lui**

Practising Certificate Number: P05895

Hong Kong, 26 December 2018

Set out below is the management discussion and analysis of the results of the Target Group for each of the financial years ended 31 December 2015, 2016 and 2017 and for the six months ended 30 June 2018 based on information provided by the Vendors and the Target Group. The management discussion and analysis for each financial year or the financial period should be read in conjunction with the financial information of the Target Group set forth in Appendix III to this circular.

**MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2015, 2016, 2017 AND SIX MONTHS ENDED 30 JUNE 2018**

**RESULTS OF OPERATIONS**

**Six months ended 30 June 2018 compared with six months ended 30 June 2017**

**Revenue**

Revenue represents income from product sales as well as rendering of services to customers. The revenue of the Target Group for six months ended 30 June 2018 was approximately US\$34.2 million (equivalent to approximately HK\$268.3 million), an increase of approximately US\$8.5 million (equivalent to approximately HK\$66.6 million), or approximately 33.0%, as compared with the revenue of approximately US\$25.7 million (equivalent to approximately HK\$201.7 million) for six months ended 30 June 2017. The increase in revenue was due to the additional demand of products from customers and the start of mass production of modules with customer orders won by the Target Group in year 2016 and year 2017 in commercial quantities.

The following table sets forth sales by product for the periods indicated:

	For six months ended 30 June 2017		For six months ended 30 June 2018	
	US\$'000 (unaudited)	%	US\$'000	%
2G	1,374	5.3	83	0.2
3G	18,291	71.2	26,946	78.8
4G	3,566	13.9	6,589	19.3
Others	<u>2,467</u>	9.6	<u>564</u>	1.7
<b>Total</b>	<b><u>25,698</u></b>	<b>100.0</b>	<b><u>34,182</u></b>	<b>100.0</b>

The following table sets forth sales by geographical areas for the periods indicated:

	For six months ended 30 June 2017		For six months ended 30 June 2018	
	US\$'000 (unaudited)	%	US\$'000	%
Asia Pacific	5,573	21.7	5,145	15.0
Germany	16,189	63.0	23,943	70.0
Rest of Europe	555	2.2	291	0.9
North America	<u>3,381</u>	13.1	<u>4,803</u>	14.1
<b>Total</b>	<b><u>25,698</u></b>	<b>100</b>	<b><u>34,182</u></b>	<b>100.0</b>

- An increase in sales volume in North America which contributed to an increase in revenue of approximately US\$1.4 million (equivalent to approximately HK\$11.2 million), or approximately 42.1%, from approximately US\$3.4 million (equivalent to approximately HK\$26.5 million) for the six months ended 30 June 2017 to approximately US\$4.8 million (equivalent to approximately HK\$37.7 million) for the six months ended 30 June 2018. The proportion of total sales from North America increase 1.0 percent point from 13.1% for the six months ended 30 June 2017 to 14.1% for the six months ended 30 June 2018. The increase was primarily due to an increase of demand from existing projects from customers.
- An increase in sales volume in Germany which contributed to an increase in revenue of approximately US\$7.8 million (equivalent to approximately HK\$60.9 million), or approximately 47.9%, from approximately US\$16.2 million (equivalent to approximately HK\$127.1 million) for the six months ended 30 June 2017 to approximately US\$23.9 million (equivalent to approximately HK\$188.0 million) for the six months ended 30 June 2018. The increase was primarily due to an increase of demand from existing projects from customers.
- A slight decrease in sales volume in Asia Pacific which contributed to a decrease in revenue of approximately US\$0.4 million (equivalent to approximately HK\$3.4 million), or approximately 7.7%, from approximately US\$5.6 million (equivalent to approximately HK\$43.7 million) for the six months ended 30 June 2017 to approximately US\$5.1 million (equivalent to approximately HK\$40.4 million) for the six months ended 30 June 2018.

**Cost of sales and gross profit**

Cost of sales represents costs directly attributed to the revenue generating activities and consists principally of direct material costs and royalties associated with sale of products paid to IP owners. The following table sets forth the Target Group's cost of sales and gross profit for the periods indicated:

	<b>For six months ended 30 June</b>	
	<b>2017</b>	<b>2018</b>
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	
Cost of sales	16,900	26,997
Gross profit	8,798	7,185
Gross margin	34.2%	21.0%

The Target Group's cost of sales primarily included direct manufacturing costs and royalty associate with sale of products. The increase in cost of sales by approximately US\$10.1 million (equivalent to approximately HK\$79.3 million), or approximately 59.7%, from approximately US\$16.9 million (equivalent to approximately HK\$132.7 million) for six months ended 30 June 2017 to approximately US\$27.0 million (equivalent to approximately HK\$211.9 million) for six months ended 30 June 2018 was caused by increase in sales volume of products with 4G with higher costs in material and royalty.

Gross profit of the Target Group decreased by approximately 18.3% from approximately US\$8.8 million (equivalent to approximately HK\$69.1 million) for six months ended 30 June 2017 to approximately US\$7.2 million (equivalent to approximately HK\$56.4 million) for six months ended 30 June 2018, while the gross margin decreased from 34.2% in first half of 2017 to 21.0% in first half of 2018, mainly due to:

- Product transition from old technologies to advance technology such as 4G and above with lower margin as products with 4G and above are not fully optimized. Technical progress and increase in volume purchased enabled the Target Group to better negotiate with raw material supplier the bill of materials price and with contract manufacturer, the assembly cost;
- Royalties are paid mainly for all products with 3G and above technology. As sales of products with 3G and above technology have increased during the historical period, the royalty payments as percentage of total revenue were increased;
- Comparing with the six months ended 30 June 2017, lower revenue received from rendering of services during the six months ended 30 June 2018.

***Research and development expenses***

Research and development expenses charged to statements of comprehensive income include all personnel costs, development costs, travelling expenses in relation to research and development, application engineering and quality assurance departments that do not qualify for capitalization as an intangible asset in accordance with the International Financial Reporting Standards (“IFRS”).

The Target Group’s research and development expenses incurred during the six months ended 30 June 2018 were approximately US\$5.4 million (equivalent to approximately HK\$42.2 million)(corresponding period in 2017: approximately US\$7.1 million, equivalent to approximately HK\$55.9 million) in which approximately US\$3.5 million (equivalent to approximately HK\$27.1 million), or approximately 64.3%, of total research and development expenses for six months ended 30 June 2018 was capitalised (corresponding period in 2017: approximately US\$5.7 million (equivalent to approximately HK\$44.6 million), or approximately 79.8%). The gross research and development expenses (before capitalisation) decreased during the six months ended 30 June 2018, mainly due to the Target Group had investment in certifying new platforms during the six months ended 30 June 2017 and no such investment was made during the six months ended 30 June 2018. The intangible assets are the capitalised research and development expenses relating to staff costs and direct development costs attributable to specific products that have entered the “Design In” phase but have not entered the “SOP” phase which are eligible to be capitalised under IFRS. The intangible assets are amortised on a straight-line basis based on the useful life of the products upon the commencement of the “Start of Production” or “SOP” phase. The capitalisation of research and development expenses decreased during the six months ended 30 June 2018 when compared with the corresponding period in 2017 since some of the products developed in the six months ended 30 June 2017 were started the mass production phase and are not eligible for capitalisation. The development expenses in the six months ended 30 June 2018 are for products which still in the development phase (“Design In” phase).

***Selling and marketing expenses***

Selling and marketing expenses principally include employee wages and benefits for global sales staff and other related expenses.

The Group’s selling and marketing expenses for six months ended 30 June 2018 were approximately US\$1.7 million (equivalent to approximately HK\$13.6 million), an increase of approximately US\$0.3 million (equivalent to approximately HK\$2.6 million), or approximately 24.1%, as compared with the selling and marketing expenses of approximately US\$1.4 million (equivalent to approximately HK\$11.0 million) for six months ended 30 June 2017. Such increase was mainly due to increase in staff salary of sales team during the six months ended 30 June 2018.

***Administrative expenses***

Administrative expenses principally include employee wages and benefits for administrative staff, including finance, human resources, IT, legal and others. The largest components of employee wages and benefits within administrative expenses include salaries, bonuses, and contributions to various benefit plans pursuant to our HR policy or applicable regulations.

The Target Group's administrative expenses for six months ended 30 June 2018 remained at approximately US\$0.5 million (equivalent to approximately HK\$3.9 million (corresponding period in 2017: approximately US\$0.5 million (equivalent to approximately HK\$4.1 million)).

***Income tax expense***

Income tax expenses represent total current and deferred tax expenses.

***Profit for the six months ended by 30 June 2018***

The Target Group recorded a net profit for six months ended 30 June 2018 of approximately US\$0.1 million (equivalent to approximately HK\$0.5 million), decrease of approximately 97.9%, compared to corresponding period in 2017 of approximately US\$2.9 million (equivalent to approximately HK\$22.9 million). Such decrease was driven by increase in cost of sales and amortisation expense which was partially offset by the increase in revenue.

***Year ended 31 December 2017 compared with the year ended 31 December 2016******Revenue***

Revenue represents income from product sales as well as non-recurring engineering services to customers. The revenue of Target Group for the year ended 31 December 2017 was approximately US\$63.2 million (equivalent to approximately HK\$495.8 million), an increase of approximately US\$31.2 million (equivalent to approximately HK\$245.1 million), or approximately 97.8%, as compared with the revenue of approximately US\$31.9 million (equivalent to approximately HK\$250.6 million) for the year ended 31 December 2016. The increase in revenue was due to the additional demand of products from customers and the start of mass production of modules with customer orders won by the Target Group in year 2015 and year 2016 in commercial quantities.

The following table sets forth sales by product for the years indicated:

	For the year ended 31 December 2016		For the year ended 31 December 2017	
	US\$'000	%	US\$'000	%
2G	10,077	31.6	4,028	6.4
3G	17,658	55.3	44,150	69.9
4G	3,313	10.4	10,685	16.9
Others	<u>880</u>	2.7	<u>4,295</u>	6.8
<b>Total</b>	<b><u>31,928</u></b>	<b>100.0</b>	<b><u>63,158</u></b>	<b>100.0</b>

Total revenue showed a significant increase from 2016 to 2017 resulting from the following factors:

- An increase in sales of 3G product which contributed to an increase in revenue of approximately US\$26.5 million (equivalent to approximately HK\$208.0 million), or approximately 150.0%, from approximately US\$17.7 million (equivalent to approximately HK\$138.6 million) for the year ended 31 December 2016 to approximately US\$44.2 million (equivalent to approximately HK\$346.6 million) for the year ended 31 December 2017. The increase was primarily due to the increased volume of more advanced automotive connectivity modules based on 3G under mass production.
- An increase in sales volume of the 4G LTE product which contributed to an increase in revenue of approximately US\$7.4 million (equivalent to approximately HK\$57.9 million), or approximately 222.5%, from approximately US\$3.3 million (equivalent to approximately HK\$26.0 million) for the year ended 31 December 2016 to approximately US\$10.7 million (equivalent to approximately HK\$83.9 million) for the year ended 31 December 2017. The increase was primarily due to ramp up in new projects and products that started the mass production phase with Tier-1 suppliers and car OEMs.
- Partially offset by a decline in sales volume of the 2G product which contributed to a decrease in revenue of approximately US\$6.0 million (equivalent to approximately HK\$47.5 million), or approximately 60.0%, from approximately US\$10.0 million (equivalent to approximately HK\$79.1 million) for the year ended 31 December 2016 to approximately US\$4.0 million (equivalent to approximately HK\$31.6 million) for the year ended 31 December 2017. The decrease was primarily due to a product is at the end of life stage and expected to be cut in year 2018.

The following table sets forth our revenue by geographic areas for the years indicated:

Revenue by geographical areas	2016		2017	
	US\$'000	%	US\$'000	%
Asia Pacific	6,839	21.4	10,028	15.9
Germany	20,378	63.8	41,002	64.9
Rest of Europe	1,357	4.3	1,405	2.2
North America	<u>3,354</u>	10.5	<u>10,723</u>	17.0
Total	<u><b>31,928</b></u>	<b>100.0</b>	<u><b>63,158</b></u>	<b>100.0</b>

- An increase in sales volume in North America which contributed to an increase in revenue of approximately US\$7.4 million (equivalent to approximately HK\$57.8 million), or approximately 219.7%, from approximately US\$3.4 million (equivalent to approximately HK\$26.3 million) for the year ended 31 December 2016 to approximately US\$10.7 million (equivalent to approximately HK\$84.2 million) for the year ended 31 December 2017. The proportion of total sales from North America increase 6.5 percent points from 10.5% for the year ended 31 December 2016 to 17.0% for the year ended 31 December 2017. The increase was primarily due to projects which was on design stage in 2016 and matured to mass production.
- An increase in sales volume in Germany which contributed to an increase in revenue of approximately US\$20.6 million (equivalent to approximately HK\$161.9 million), or approximately 101.2%, from approximately US\$20.4 million (equivalent to approximately HK\$160.0 million) for the year ended 31 December 2016 to approximately US\$41.0 million (equivalent to approximately HK\$321.9 million) for the year ended 31 December 2017. The increase was primarily due to an increase of demand from existing customers and projects that move from design stage to mass production.
- An increase in sales volume in Asia Pacific which contributed to an increase in revenue of approximately US\$3.2 million (equivalent to approximately HK\$25.0 million), or approximately 46.6%, from approximately US\$6.8 million (equivalent to approximately HK\$53.7 million) for the year ended 31 December 2016 to approximately US\$10.0 million (equivalent to approximately HK\$78.7 million) for the year ended 31 December 2017. The increase was primarily due to new programs and ramp up in sales of existing programs since the Target Group has penetrated into the Asia Pacific. However, the proportion of total sales from Asia Pacific decrease 5.5 percent points from 21.4% for the year ended 31 December 2016 to 15.9% for the year ended 31 December 2017, mainly due to a very strong increase in sales to Germany and North America.

***Cost of sales and gross profit***

Cost of sales represents costs directly attributed to the revenue generating activities and consists principally of direct material costs and royalties associated with sale of products paid to IP owners. The following table sets forth our Group's cost of sales and gross profit for the years indicated:

	2016	2017
Cost of Sales (US\$'000)	22,337	45,451
Gross Profit (US\$'000)	9,591	17,707
Gross Profit Margin (%)	30.0	28.0

The Target Group's cost of sales primarily included direct manufacturing costs and royalty associate with sales. The increase in cost of sales by approximately US\$23.1 million (equivalent to approximately HK\$181.4 million), or approximately 103.5%, from approximately US\$22.3 million (equivalent to approximately HK\$175.3 million) for the year ended 31 December 2016 to approximately US\$45.5 million (equivalent to approximately HK\$356.8 million) for the year ended 31 December 2017 aligns with the overall increase in the Target Group's revenue of approximately 97.8%. In addition, cost of sales in year 2017 was affected by each of the followings:

- The Target Company monitors direct manufacturing costs on an ongoing basis in order to implement price reductions. As such, management renegotiates prices with its different suppliers on a yearly basis (both for the reduction of bill of materials cost and value add paid to suppliers). The increase in volume purchased enabled the Target Group to negotiate with raw material supplier and the bill of materials price.
- Royalties are paid mainly for all products with 3G and above technology. As sales of products with 3G and above technology have increased during the historical period, the royalty payments increased.

Gross profit of the Target Group increased by approximately 84.6% from approximately US\$9.6 million (equivalent to approximately HK\$75.3 million) for the year ended 31 December 2016 to approximately US\$17.7 million (equivalent to approximately HK\$139.0 million) for the year ended 31 December 2017, while the gross profit margin decreased from 30.0% in 2016 to 28.0% in 2017, mainly due to the volume discount provided by the Target Group to its major customers to achieve economies of scale. The increase in gross profit was primarily due to the increase in product volumes sold.

***Research and development expenses***

Research and development expenses charged to statements of comprehensive income include all staff costs, development costs, travelling expenses in relation to research and development, application engineering and quality assurance departments that do not qualify for capitalization as an intangible asset in accordance with the IFRS.

The Target Group's research and development expenses incurred during the year ended 31 December 2017 were approximately US\$14.7 million (equivalent to approximately HK\$115.5 million) (31 December 2016: approximately US\$10.4 million, equivalent to approximately HK\$81.9 million) in which approximately US\$10.6 million (equivalent to approximately HK\$82.8 million), or approximately 71.7%, of total research and development expenses for the year ended 31 December 2017 was capitalised (31 December 2016: approximately US\$7.0 million (equivalent to approximately HK\$55.2 million), or approximately 67.4%). The gross research and development expenses (before capitalisation) increased during the financial year of 2017, mainly due to increased development activity which was reflected in the recruitment of employees and increase in development costs. The intangible assets are the capitalised research and development expenses relating to staff costs and direct development costs attributable to specific products that have entered the "Design-In" phase but have not entered the "SOP" phase which are eligible to be capitalised under IFRS. The intangible assets are amortised on a straight-line basis based on the useful life of the products upon the commencement of the "SOP" phase. The capitalisation of research and development expenses increased during the year ended 31 December 2017 due to shifting of resources (development costs and work hours) into eligible for capitalisation projects.

***Selling and Marketing expenses***

Selling and marketing expenses principally include employee wages and benefits for our global sales staff and other related expenses.

The Group's selling and marketing expenses for the year ended 31 December 2017 were approximately US\$3.1 million (equivalent to approximately HK\$24.2 million), an increase of approximately US\$0.9 million (equivalent to approximately HK\$6.7 million), or approximately 38.4%, as compared with the selling and marketing expenses of approximately US\$2.2 million (equivalent to approximately HK\$17.5 million) for the year ended 31 December 2016. Such increase was mainly due to increase in staff salary in sales team during the year ended 31 December 2017.

***Administrative expenses***

Administrative expenses principally include employee wages and benefits for administrative staff, including finance, IT, legal and others. The largest components of employee wages and benefits within administrative expenses include salaries, bonuses, and contributions to various benefit plans pursuant to our HR policy or applicable regulations.

The Target Group's administrative expenses for the year ended 31 December 2017 remained at approximately US\$1.1 million (equivalent to approximately HK\$8.4 million) as compared with the administrative expenses of approximately US\$1.0 million (equivalent to approximately HK\$7.9 million) for the year ended 31 December 2016.

***Income tax expense***

Income tax expenses represent total current and deferred tax expenses.

***Profit for the year***

The Target Group recorded a net profit for the year ended 31 December 2017 of approximately US\$3.3 million (equivalent to approximately HK\$26.2 million) when compared to a net loss for the year ended 31 December 2016 of approximately US\$0.9 million (equivalent to approximately HK\$7.2 million). The turnaround was driven by significant increase in revenue and gross profit, which was partially offset by the decrease in gross margin and the increase in research and development expenses.

**Year Ended 31 December 2016 compared with the combined year ended 31 December 2015*****Revenue***

Revenue represents income from product sales as well as non recurring engineering services to customers. The revenue of Target Group for the year ended 31 December 2016 was approximately US\$31.9 million (equivalent to approximately HK\$250.6 million), an increase of approximately US\$0.7 million (equivalent to approximately HK\$5.2 million), or approximately 2.1%, as compared with the revenue of approximately US\$31.3 million (equivalent to approximately HK\$245.5 million) for the year ended 31 December 2015. The increase in revenue was due to the increased volume of more advanced automotive connectivity modules based on 3G and 4G under mass production, which was offset by the declined sales volume of modules based on 2G.

The following table sets forth sales by product lines for the years indicated:

	For the year ended 31 December 2015		For the year ended 31 December 2016	
	US\$'000	%	US\$'000	%
2G	14,831	47.4	10,077	31.6
3G	15,658	50.1	17,658	55.3
4G	252	0.8	3,313	10.4
Others	<u>527</u>	1.7	<u>880</u>	2.7
<b>Total</b>	<b><u>31,268</u></b>	<b>100.0</b>	<b><u>31,928</u></b>	<b>100.0</b>

Total revenue showed a slightly increase from year 2015 to year 2016 resulting from the following factors:

- An increase in sales volume of 3G product which contributed to increase in revenue of approximately US\$2.0 million (equivalent to approximately HK\$15.7 million), or approximately 12.8%, from approximately US\$15.7 million (equivalent to approximately HK\$122.9 million) for the year ended 31 December 2015 to approximately US\$17.7 million (equivalent to approximately HK\$138.6 million) for the year ended 31 December 2016. The increase was primarily due to the increase in sales volume of more advanced automotive connectivity modules based on 3G under mass production.
- An increase in sales volume of 4G product which contributed to increase in revenue of approximately US\$3.1 million (equivalent to approximately HK\$24.0 million), or approximately 1,214.7%, from approximately US\$0.3 million (equivalent to approximately HK\$2.0 million) for the year ended 31 December 2015 to approximately US\$3.3 million (equivalent to approximately HK\$26.0 million) for the year ended 31 December 2016. The increase was primarily due to the increase in sales volume of more advanced automotive connectivity modules based on 4G under mass production.
- Partially offset by a decline in sales volume of the 2G product which contributed to a decrease in revenue of approximately US\$4.8 million (equivalent to approximately HK\$37.3 million), or approximately 32.1%, from US\$14.8 million (equivalent to approximately HK\$116.4 million) for the year ended 31 December 2015 to approximately US\$10.1 million (equivalent to approximately HK\$79.1 million) for the year ended 31 December 2016. The decrease was primarily due to fade out of the 2G technology which entered into decline stage of its product life cycle.

The following table sets forth the Target Group's revenue by geographic areas for the years indicated:

Revenue by geographical areas:	2015		2016	
	US\$'000	%	US\$'000	%
Asia Pacific	3,883	12.4	6,839	21.4
Germany	17,705	56.6	20,378	63.8
Rest of Europe	9,150	29.3	1,357	4.3
North America	<u>530</u>	1.7	<u>3,354</u>	10.5
	<u><b>31,268</b></u>	<b>100.0</b>	<u><b>31,928</b></u>	<b>100.0</b>

- An increase in sales volume in North America which contributed to increase in revenue of approximately US\$2.8 million (equivalent to approximately HK\$22.2 million), or approximately 532.8%, from approximately US\$0.5 million (equivalent to approximately HK\$4.1 million) for the year ended 31 December 2015 to approximately US\$3.4 million (equivalent to approximately HK\$26.3 million) for the year ended 31 December 2016. The proportion of total sales from North America increase 8.8 percent points from 1.7% for the year ended 31 December 2015 to 10.5% for the year ended 31 December 2016. The increase was primarily due to new designs and project which mature to mass production.
- An increase in sales volume in Asia Pacific which contributed to increase in revenue of approximately US\$3.0 million (equivalent to approximately HK\$23.2 million), or approximately 76.1%, from approximately US\$3.9 million (equivalent to approximately HK\$30.5 million) for the year ended 31 December 2015 to approximately US\$6.8 million (equivalent to approximately HK\$53.7 million) for the year ended 31 December 2016. The proportion of total sales from Asia Pacific increase 9.0 percent points from 12.4% for the year ended 31 December 2015 to 21.4% for the year ended 31 December 2016. The increase was primarily due to an increase from existing projects and project which matured to mass production.

- Due to decline in revenue in the Rest of Europe of approximately US\$7.8 million (equivalent to approximately HK\$61.2 million), or approximately 85.2%, from approximately US\$9.2 million (equivalent to approximately HK\$71.8 million) for the year ended 31 December 2015 to approximately US\$1.4 million (equivalent to approximately HK\$10.7 million) for the year ended 31 December 2016. The proportion of total sales from Germany and the Rest of Europe decrease 17.8 percent points from 85.9% for the year ended 31 December 2015 to 68.1% for the year ended 31 December 2016. The decrease was primarily due to total decrease in revenue for this region which attributed to one project became end of life in December 2015.

### ***Cost of sales and gross profit***

Cost of sales represents costs directly attributed to the revenue generating activities and consists principally of direct material costs and royalties associated with sale of products paid to IP owners. The following table sets forth our Group's cost of sales and gross profit for the years indicated:

	<b>2015</b>	<b>2016</b>
Cost of Sales ( <i>US\$'000</i> )	21,610	22,337
Gross Profit ( <i>US\$'000</i> )	9,658	9,591
Gross Profit Margin (%)	30.9	30.0

The Target Group's cost of sales primarily included direct manufacturing costs and royalty associate with sale of products. The increase in cost of sales by approximately US\$0.7 million (equivalent to approximately HK\$5.7 million), or approximately 3.4%, from approximately US\$21.6 million (equivalent to approximately HK\$169.6 million) for the year ended 31 December 2015 to approximately US\$22.3 million (equivalent to approximately HK\$175.3 million) for the year ended 31 December 2016 aligns with the overall increase in the Target Group's revenue of 2.1%.

The Target Group's gross profit for the year ended 31 December 2016 remained at approximately US\$9.6 million (equivalent to approximately HK\$75.3 million) as compared with the gross profit of approximately US\$9.7 million (equivalent to approximately HK\$75.8 million) for the year ended 31 December 2015 notwithstanding the change in mix of products toward 3G and new technology which led to an increase in royalties payments.

***Research and development expenses***

Research and development expenses charged to statements of comprehensive income include all staffs costs, development costs, travelling expenses in relation to research and development, application engineering and quality assurance departments that do not qualify for capitalization as an intangible asset in accordance with the IFRS.

The Target Group's research and development expenses for the year ended 31 December 2016 were approximately US\$10.4 million (equivalent to approximately HK\$81.9 million) (31 December 2015: approximately US\$8.6 million, equivalent to approximately HK\$67.2 million) in which approximately US\$7.0 million (equivalent to approximately HK\$55.2 million), or approximately 67.4%, of total research and development expenses was capitalised for the year ended 31 December 2016 (31 December 2015: approximately US\$5.6 million (equivalent to approximately HK\$43.8 million), or approximately 65.3%). The gross research and development expenses (before capitalisation) increased during the financial year of 2016, mainly due to investment in three new products which also affected the increase in the capitalisation of research and development costs during the financial year of 2016.

***Selling and marketing expenses***

Selling and marketing expenses principally include employee wages and benefits for the global sales staff and other related expenses.

The Target Group's selling and marketing expenses for the year ended 31 December 2016 remained at approximately US\$2.2 million (equivalent to approximately HK\$17.5 million) when compared with the selling and marketing expenses of approximately US\$2.1 million (equivalent to approximately HK\$16.5 million) for the year ended 31 December 2015.

***Administrative expenses***

Administrative expenses principally include employee wages and benefits for administrative staff, including finance, human resources, IT, legal and others. The largest components of employee wages and benefits within administrative expenses include salaries, bonuses, and contributions to various benefit plans pursuant to our HR policy or applicable regulations.

The Target Group's administrative expenses for the year ended 31 December 2016 were approximately US\$1.0 million (equivalent to approximately HK\$7.9 million), an increase of approximately US\$0.8 million (equivalent to approximately HK\$6.0 million), or approximately 313.6%, as compared with the administrative expenses of approximately US\$0.2 million (equivalent to approximately HK\$1.9 million) for the year ended 31 December 2015. Such increase was primarily due to increase in the operation of the business as explained in the "Research and development expenses" section above for the year ended 31 December 2016.

**Income tax expense**

Income tax expenses represent total current and deferred tax expenses.

**Profit/Loss for the year**

The Target Group incurred a net loss of approximately US\$0.9 million (equivalent to approximately HK\$7.2 million) for the year ended 31 December 2016 when compared with a net profit of approximately US\$2.7 million (equivalent to approximately HK\$21.2 million) for the year ended 31 December 2015. The Target Group had won various new programs from existing and new customers in year 2016 and incurred higher research and development expenditure for product development, certification and qualification, which results a decrease in net profit in 2016. Depreciation and amortization of intangible assets for the year ended 31 December 2016 surged by approximately 37.6% and 48.8% to approximately US\$1.8 million and US\$2.1 million respectively (2015: US\$1.3 million and US\$1.4 million) as a result of the increase of internally generated assets and equipment by approximately US\$7.0 million and US\$2.2 million respectively for the year ended 31 December 2016. The above factors together with the expansion of the Target Company in year 2016 to cope with the growing businesses, which result in an increase in the general and administrative expenses by 313.6% to approximately US\$1.0 million (2015: US\$0.2 million), attributed to the change from net profit for the year ended 31 December 2015 to a net loss for the year ended 31 December 2016.

**MAJOR CUSTOMERS OF THE TARGET GROUP**

The following sets out some information of the major customers of the Target Group for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018.

**Revenue contribution**

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017 (unaudited)	2018
	<i>Approximate % of total revenue contribution</i>				
Customer A	8%	30%	37%	38%	53%
Customer B	1%	2%	21%	19%	15%
Customer C	0%	10%	10%	12%	6%
Customer D	11%	17%	7%	11%	3%
Customer E	46%	31%	7%	5%	0%
Customer F	25%	0%	0%	0%	0%
Others	9%	10%	18%	15%	23%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Customer A**

Customer A is a supplier to the automotive industry, with worldwide operations. The relationship between the Target Group and Customer A is ongoing and it started in 2014 following the acquisition of the automotive telematics on-board unit platform (ATOP) by Telit Communications from a third party. The Target Group provides Customer A with 3G modules. Based on information available to the Company, the modules are used as components in the connectivity boxes offered by Customer A to various OEMs located in Germany.

**Customer B**

Customer B manufactures and trades in products such as automotive aftermarket and premarket products, diesel and gasoline fuel injection systems, starters and generators, industrial equipment, packaging machines, electrical power tools, security systems and industrial and consumer energy products and solutions. The relationship between the Target Group and Customer B has been ongoing for a few years. The Target Group provides Customer B with the 2G, 3G, and 4G modules. Such modules are used as components in the connectivity boxes offered by Customer B to various OEMs located in Germany and Asia Pacific. The Target Group has long term relationship with the customer for more than 5 years.

**Customer C**

Customer C is a global automotive supplier that designs, engineers and manufactures innovative electronics products for OEMs worldwide. The relationship between the Target Group and Customer C has been ongoing for more than 5 years. The Target Group provides Customer C with 4G modules. Such modules are used as components in the connectivity boxes offered by Customer C to various OEMs located in Asia Pacific.

**Customer D**

Customer D is a distributor offering integrated circuits and liquid crystal displays, memory cards and boards, system products, batteries, and semiconductor components. The Target Group engaged with Customer D in order to get distribution services to an OEM related to two projects. The relationship with Customer D has been ongoing for more than 5 years. The Target Group provides Customer D with 3G modules. Based on information available to the Company, such modules are sold by Customer D to Tier 1 suppliers in North America.

**Customer E**

Customer E engages in the manufacture and sale of components in the area of communications technology for auto manufacturers, industrial firms, government agencies, and mobile phone manufacturers worldwide. The Target Group provided Customer E with 2G module which had reached its end of life Phase. The module was used as a component in the connectivity boxes offered by Customer E to an OEM located in Germany. The relationship with Customer E started in 2014 following the acquisition of the automotive telematics on-board unit platform (ATOP) by Telit Communications from a third party.

**Customer F**

Customer F manufactures electronic onboard systems for vehicles. The Target Group provided Customer F with a 3G module which was declared as end of life at the end of 2015.

**ANALYSIS OF FINANCIAL POSITION****Inventories**

Inventories include raw materials and finished goods. Inventories mainly included finished goods as commonly subcontractors would purchase raw materials directly from vendors. Raw materials primarily include components which the Target Group buys directly from the suppliers to achieve better negotiation with the components suppliers.

Target Group typically maintains an average of 35 days of inventory on hand to manage its working capital and customer schedule requirements. The inventory turnover days for the three years ended 31 December 2017 and six months ended 30 June 2018 remained relatively stable at approximately 38 days, 38 days, 23 days, and 37 days respectively. The decrease in finished goods inventory in 2017 was mainly due to the high demand from customers at year hand as the Target group production is substantially in full capacity.

Target Group regularly reviews our inventories on hand and evaluates future demand based on customer schedules and commitments. Impairment provisions are recognised when there is objective evidence that inventory is obsolete.

**Trade Receivables**

Target Group's trade receivables primarily consist of amounts payable by third-party customers. Credit terms range from 30 to 90 days after invoice date depending on the customer. The creditworthiness of a customer is assessed on their payment history and ability to make repayments and customer credit ratings from third-party rating agencies. The trade receivable turnover days for the three years ended 31 December 2017 and six months ended 30 June 2018 were approximately 35 days, 86 days, 111 days, and 87 days respectively.

The trade receivables turnover days increased from approximately 35 days for the year ended 31 December 2015 to approximately 86 days for the year ended 31 December 2016 was primarily attributable to the change in customers mix of the Target Group with longer payment terms.

The trade receivables turnover days increased from approximately 86 days for the year ended 31 December 2016 to approximately 111 days for the year ended 31 December 2017. Such increase was primarily driven by longer credit terms granted to new customers.

The trade receivables turnover days decreased from approximately 111 days for the year ended 31 December 2017 to approximately 87 days for the six months ended 30 June 2018 as a result of stringent credit control in order to improve the liquidity of the Target Group.

We regularly review our aging analysis and evaluate collectability on an individual basis by specific analysis of those customers with known collection problems due to bankruptcy or liquidity issues. Target Group's trade receivables are primarily related to receivables from a number of our OEM customers, which include substantially all of the world's top ten major OEMs in terms of production volumes and generally have positive credit profiles. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulty on the part of the counterparty or default or significant delay in payment) that we will be unable to collect all of the amounts due.

The aging of the trade receivables based on invoice date is as follows:

	Total US\$'000	Neither past due nor impaired US\$'000	Past due but not impaired		
			1-30 days US\$'000	30-60 days US\$'000	Above 60 days US\$'000
As per 30 June 2018	16,444	12,765	2,833	621	225
As per 31 December 2017	19,241	16,407	2,638	196	-
As per 31 December 2016	7,495	6,839	656	-	-
As per 31 December 2015	2,986	2,712	245	29	-

**Other current assets**

Other current assets mainly comprised of the prepaid expenses of overhead costs, operational costs, employees' pension deposit, employees' related prepaid expenses, recoverable VAT and deferred revenues in favor of non recurring services.

**Intangible assets – internally generated**

The intangible assets internally generated are the capitalised R&D expenses relating to staff costs and direct development costs attributable to specific products that have entered the “Design-In” phase but have not entered the “SOP” phase which are eligible to be capitalised under IFRS. The intangible assets are amortised on a straight-line basis based on the useful life of the products upon the commencement of the “SOP” phase. As at 31 December 2015, 2016, 2017 and 30 June 2018, intangible assets were approximately US\$9.1 million, US\$15.4 million, US\$24.3 million, and US\$26.0 million respectively (equivalent to HK\$71.6 million, HK\$121.1 million, HK\$191.0 million and HK\$204.1 million respectively).

**Trade Payables**

Target Group's trade payables primarily consist of amounts payable to third parties for the purchase of finished goods and other production costs and overheads. Payment terms to suppliers typically range from 45 to 120 days. The following table sets forth our trade payables as of the dates indicated:

	31 December 2015 <i>US\$'000</i>	31 December 2016 <i>US\$'000</i>	31 December 2017 <i>US\$'000</i>	30 June 2018 <i>US\$'000</i>
Trade payables	<u>8,174</u>	<u>13,489</u>	<u>22,521</u>	<u>24,975</u>

As a result of the increase in revenue during the years and the strong demand in the year end, the trade payables turnover days for the three years ended 31 December 2017 and six months ended 30 June 2018 were approximately 138 days, 220 days, 181 days, and 167 days respectively.

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December		As at 30 June	
	2015	2016	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 month	3,213	8,652	11,314	13,834
1 to 2 months	1,767	2,318	5,451	5,107
2 to 3 months	<u>3,194</u>	<u>2,519</u>	<u>5,756</u>	<u>6,034</u>
	<u>8,174</u>	<u>13,489</u>	<u>22,521</u>	<u>24,975</u>

#### Other current liabilities

Other current liabilities mainly comprised of provisions for paid holidays, social benefits and bonuses.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Flows

The Target Group has historically met its working capital and other capital requirements principally from cash provided by operations and financing by the Telit Group.

In the future, the Target Group's liquidity and capital expenditure requirements will be satisfied by a combination of cash generated from its operating activities and continued financing by the Group.

The following table summarizes the Target Group's cash flows for the period/years indicated:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Net cash generated from operating activities	3,420	3,277	7,024	4,368	5,516
Net cash used in investing activities	(9,175)	(9,243)	(14,273)	(8,394)	(4,040)
Net cash generated from financing activities	5,349	8,506	5,424	2,459	386
Increase/(decrease) in cash and cash equivalents	(406)	2,540	(1,825)	(1,567)	1,862
Cash and cash equivalents					
– balance at beginning of year	639	233	2,773	2,773	948
Cash and cash equivalents					
– balance at end of year	233	2,773	948	1,206	2,810

#### Cash Flows Generated from Operating Activities

The Target Group had net cash generated from operations of US\$3.4 million, US\$3.3 million, US\$7.0 million, US\$4.4 million, and US\$5.5 million respectively for the three years ended 31 December 2017 and the six months ended 30 June 2017 and 2018.

#### Cash Flows Generated from Investing Activities

Net cash used in investing activities for the three years ended 31 December 2017 and six months ended 30 June 2017 and 2018 amounted to approximately US\$9.2 million, US\$9.2 million, US\$14.3 million, US\$8.4 million, and US\$4.0 million respectively. This increase in net cash outflow for the year ended 31 December 2017 when compared with the corresponding period in 2016 was primarily attributable to increase in acquisition of equipment, and capitalised development expenditure by approximately US\$1.5 million and US\$3.5 million respectively. The net cash outflow for the year ended 31 December 2016 and 2015 remained stable at approximately US\$9.2 million and US\$9.2 million respectively. The net cash outflow for the six months ended 30 June 2018 was decreased by approximately US\$4.4 million when compared with corresponding period in 2017 which was primarily due to decrease in acquisition of equipment, and capitalised development expenditure by approximately US\$2.1 million and US\$2.2 million respectively.

#### Cash Flows Generated from Financing Activities

Net cash generated from financing activities for the three years ended 31 December 2017 and six months ended 30 June 2017 and 2018 amounted to approximately US\$5.3 million, US\$8.5 million, US\$5.4 million, US\$2.5 million and US\$0.4 million respectively. This cash inflow was primarily due to issue of share and parent contribution to equity.

***Business outlook and prospects***

The Target Group is principally engaged in the development, manufacture and sale of line-fit wireless connectivity modules that are supplied to global leading car OEMs and Tier 1 Suppliers. The Target Group prioritizes its research and development efforts and is currently engaged in V2X/5G activities, which will secure its technological leadership and drive its long-term growth.

Based on the Group's existing sales and service network in China, the Target Group will gain extensive market access in China. The global presence, strong customer relationships and technological expertise position the Target Group well to capitalize on future growth in these emerging markets. Since the Target Group has already started to provide products to Tesla directly, based on such business model, the Target Group will expand its business in emerging markets by offering automotive communication modules that are tailored to different emerging markets' product performance and price requirement. The Target Group will also work closely with multiple semiconductor chipset makers, keeping it up-to-date with the features of the most recent connectivity technology and allowing it to use the most recent and suitable chipsets to design its modules.

The Target Group had no order book for the three years ended 31 December 2017 and six months ended 30 June 2017 and 2018.

***Material Acquisitions and Disposals***

There were no material acquisitions and disposals of the Target Group during the three years ended 31 December 2017 and for the six months ended 30 June 2017 and 2018.

***Significant Investments***

Saved as disclosed above, there was no other significant investment during the three years ended 31 December 2017 and for the six months ended 30 June 2017 and 2018 and there were no other future plans for material investments or capital assets.

***Capital Structure***

The Target Group had short-term borrowings from banks of approximately US\$2,000, US\$2,000, nil, nil, and nil as at 31 December 2015, 2016, 2017 and 30 June 2017 and 2018 respectively. The short-term borrowings were primarily used to finance short-term cash flows for the month end payments. All of the short-term borrowings were denominated in EURO as at 31 December 2015 and 2016 respectively.

***Treasury Policy***

During the three years ended 31 December 2017 and six months ended 30 June 2017 and 2018, the Target Group principally financed its operations and investing activities, among others, with its operating revenue, and equity financing from Telit Communications.

***Employees and Remuneration Policy***

As at 31 December 2016, the Target Group employed approximately 104 staff in the Israel, France, Belgium, Germany, USA, the PRC, Korea and Japan (2015: approximately 82 staff). The Target Group's remuneration to employees, including directors' emoluments increased by approximately US\$0.3 million (equivalent to approximately HK\$2.2 million) to approximately US\$8.0 million (equivalent to approximately HK\$63.1 million) in 2016. The increment is mainly due to the increase in number of staff as stated above.

As at 31 December 2017, the Target Group employed approximately 113 staff in the Israel, France, Belgium, Germany, USA, the PRC, Korea and Japan (2016: approximately 104 staff). The Target Group's remuneration to employees, including emoluments increased by approximately US\$3.8 million (equivalent to approximately HK\$30.2 million) to approximately US\$11.9 million (equivalent to approximately HK\$93.3 million) in 2017. The increment is mainly due to the increase in number of staff as stated above.

The Target 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 Target Group provides social benefits subject to the labor law in relevant country. Share based compensation and bonuses are also available to employees of the Target Group at the discretion of the directors of the Target Company and depending upon the performance of the Target Group.

***Retirement schemes***

The employees in Israel are entitled to social benefits in accordance with Israeli labor law requirements. The social benefits include the followings:

- Pension schemes: according to Israeli labor law, employees can choose between pension funds or managers insurance policies, as their defined contribution plan. The Target Group makes pension contributions in accordance with Israeli labor law, which allows it to allocate severance liability payments in accordance with Section 14 of Severance Pay Law. The contributions are comprised of:
  1. Employer contributions in the amount of 6.5% gross salary to cover pension liability. In case further contributions are required due to income protection insurance coverage, employer contributions may amount to 7.5%;

2. Employer contributions of 8.33% towards a severance fund; and
  3. Employee contributions of 6% towards a pension fund or managers insurance policy.
- Severance pay: employees in Israel are covered by section 14 of the Israeli Severance Pay Law. According to Section 14, subject to minimum monthly deposits made by the Target Group to personal funds, the Target Group has no severance related obligations upon employment termination – the employee is only entitled to the amounts accumulated in his personal fund (in the event of dismissal or resignation). However, Section 14 applies only if employees sign a letter confirming their agreement to this clause.

The employees in France are entitled to social benefits in accordance with French labor law requirements. The social benefits include the followings:

- Retirement plan (GAN): 7 employees that were transferred from the NXP automotive business are entitled to an additional retirement plan on top of the retirement contributions required by law. This cost amounts to approximately US\$96,000 (equivalent to approximately HK\$753,600) on an annual basis.
- Retirement indemnities: When an employee reaches his retirement age, his employer is obligated to pay additional indemnities on top of the retirement contributions required by law. The Target Group performs an annual actuarial calculation to assess its exposure to future retirement indemnities and records a provision in its FS accordingly. In addition, the Target Group has a designated insurance fund in the amount of US\$141,000 (equivalent to approximately HK\$1,106,850) in order to cover future indemnities.

### ***Charge on Group Assets***

As at 31 December 2015, 2016, 2017 and 30 June 2017, 2018, the Group had no pledge of assets.

### ***Gearing Ratio***

The Target Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 67.4% in 2017 from 60.5% in 2016, increased to 60.5% in 2016 from 40.6% in 2015.

***Foreign Exchange Exposure***

During the three years ended 31 December 2017 and six months ended 30 June 2017 and 2018, the Target Group mainly operates in Europe, US and APAC with most of the transactions settled in US\$. During the three years ended 31 December 2017 and six months ended 30 June 2017 and 2018, the Target Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against US\$ may have a financial impact on the Target Group.

***Contingent Liabilities***

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the Directors were not aware of any material contingent liabilities.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The Directors jointly and severally accept full responsibility for accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Director's interest in the securities of the Company and its associated corporations

As at the date of the Latest Practicable Date, save as disclosed below, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules:

*(i) Interest in the shares and underlying shares (other than share options) of the Company*

Name of Director	Capacity	Number of Shares (Note 1)	Approximate percentage of interest in the Company (Note 2)
Mr. Ma	Beneficial owner	210,718,000 (L)	15.93%
	Beneficial owner (Note 3)	100,000,000 (L)	7.56%
Mr. Shen	Beneficial owner	50,000,000 (L)	3.78%
	Beneficial owner (Note 4)	109,853,894 (L)	8.30%

*Notes:*

- (1) The letter “L” denotes the person’s long position in such shares.
- (2) Based on 1,323,184,888 Shares in issue as at the Latest Practicable Date.
- (3) These Shares represented Mr. Ma’s interest in the shares underlying the 0% coupon convertible bonds due 2023 in the aggregate principal amount of HK\$53,700,000 (the “**New Convertible Bonds**”) issued by the Company to Mr. Ma pursuant to the Subscription Agreement, assuming full conversion of the New Convertible Bonds at an initial Conversion Price of HK\$0.537 per Share.
- (4) These Shares represented Mr. Shen’s interest in the long position of 109,853,894 Shares underlying the HK\$300,000,000 6% coupon convertible bond due 2019 (the “**6% Convertible Bond**”) issued by the Company on 9 June 2017.

*(ii) Interest in the share options of the Company*

As at the Latest Practicable Date, the following Directors had personal interest in the Share Options to subscribe for the Shares granted under the Share Option Schemes:

Name of Directors	Number of Share Options	Date of grant	Exercise price per Share (HK\$)	Exercise period
<i>Executive Directors</i>				
Mr. Ma	9,280,000	12 October 2016	0.822	12 October 2017 to 11 October 2026
Du Peng	9,280,000	22 January 2016	0.820	22 January 2017 to 21 January 2026
	4,640,000	18 April 2018	0.620	18 April 2019 to 17 April 2028
	<u>13,920,000</u>			
Mr. Shen	9,280,000	12 October 2016	0.822	12 October 2017 to 11 October 2026
	4,640,000	18 April 2018	0.620	18 April 2019 to 17 April 2028
	<u>13,920,000</u>			
<i>Non-executive Directors</i>				
Tsang Ling Bui, Gilbert	4,640,000	22 January 2016	0.820	22 January 2017 to 21 January 2026

**(b) Substantial shareholders' and other persons' interests in the shares and underlying shares of the Company**

As at the Latest Practicable Date, other than the interests disclosed above in respect of certain directors and chief executive of the Company, the interests and short positions of persons 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 were as follows:

Name of shareholder	Capacity	Number of Shares (Note 1)	Approximate percentage of interest in the Company (Note 2)
Tuspark Venture	Beneficial interest (Notes 3 and 5)	322,344,696 (L)	24.36%
Tus-Holdings	Interests of controlled corporation (Note 3)	322,344,696 (L)	24.36%
Tsinghua Holdings Co., Ltd. ("Tsinghua Holdings")	Interests of controlled corporation (Note 4)	322,344,696 (L)	24.36%
Beijing Baijun Investment Company Limited ("Beijing Baijun")	Interests of controlled corporation (Note 4)	322,344,696 (L)	24.36%
Wang Jiwu	Interests of controlled corporation (Note 4)	322,344,696 (L)	24.36%
Tsinghua University	Interests of controlled corporation (Note 4)	322,344,696 (L)	24.36%
CM Securities Investment Limited ("CMSI")	Beneficial owner (Note 6)	109,853,894 (L)	8.30%
China Minsheng Financial Holding Corporation Limited ("CMFHCL")	Interests of controlled corporation (Note 6)	109,853,894 (L)	8.30%
China Minsheng Investment Corporation Limited	Interests of controlled corporation (Note 6)	109,853,894 (L)	8.30%
Munsun Smart Mobility Fund LP ("Munsun Smart")	Beneficial owner (Note 7)	109,853,894 (L)	8.30%

*Notes:*

- (1) The letter “L” denotes the person’s long position in such shares.
- (2) Based on 1,323,184,888 Shares in issue as at the Latest Practicable Date.
- (3) Tuspark Venture was the beneficial owner of 212,490,802 Shares. The entire issued share capital of Tuspark Venture was beneficially owned by Tus-Holdings. Tus-Holdings was therefore deemed to be interested in the 212,490,802 Shares held by Tuspark Venture pursuant to the SFO.
- (4) Tus-Holdings was held (i) as to approximately 44.92% by Tsinghua Holdings, which was in turn held as to 100% by Tsinghua University; and (ii) as to approximately 30.08% by Beijing Baijun, which was in turn held as to 100% by Mr. Wang Jiwu.
- (5) Tuspark Venture was beneficially interested in the 6% Convertible Bond due 2019 in the principal amount of HK\$100,000,000 which was convertible into 109,853,894 Shares at the conversion price of HK\$0.9103 per Share (subject to adjustment(s)).
- (6) CMSI was beneficially interested in the 6% Convertible Bond due 2019 in the principal amount of HK\$100,000,000 which was convertible into a maximum of 109,853,894 Shares at the conversion price of HK\$0.9103 per Share (subject to adjustment(s)).

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

CMFHCL was held as to approximately 50.00% by CMI Financial Holding Company Limited, which was wholly owned by China Minsheng Asia Asset Management Company Limited, which was in turn wholly owned by China Minsheng Investment Corporation Limited.

- (7) Munsun Smart was beneficially interested in the 6% Convertible Bond due 2019 in the principal amount of HK\$100,000,000 which was convertible into 109,853,894 Shares at the conversion price of HK\$0.9103 per Share (subject to adjustment(s)).

Except for (a) Mr. Du, who is an executive Director, a director of Tuspark Venture and vice president of Tus-Holdings and (b) Mr. Ma, who is an executive Director and a director of Tus-Holdings, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS**

- (a) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which had been, since 31 December 2017 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) As at the Latest Practicable Date, save for the Subscription Agreement, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, (i) none of the Directors had any service contract with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Initial Announcement; (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; and (ii) none of the Directors had any existing or proposed service contracts with any member of the Group which does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

**5. DIRECTORS' COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) was interested in any business apart from the Group's businesses which competes or may compete, directly or indirectly, with the business of the Group.

**6. LITIGATION**

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, arbitration or claim of material importance and so far as the Directors were aware, no litigation, arbitration or claim of material importance was pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

## 7. MATERIAL CONTRACTS

The following contracts (being contracts entered into outside the ordinary course of business carried on by the Group) have been entered into by members of the Group within the two years immediately preceding the date of the Initial Announcement and up to the Latest Practicable Date:

- (a) the Acquisition Agreement;
- (b) the Subscription Agreement;
- (c) an equity transfer agreement entered into between Suzhou Qiyizhi Management Enterprise Limited (“**Suzhou Qiyizhi**”) and 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 RMB17,000,000;
- (d) the agreement entered into between TUS Cloud Control and certain leading enterprises of the industry (including automotive OEMs (original equipment manufacturers) and mobility service providers) on 9 March 2018 and 14 March 2018, pursuant to which, the contract parties agree to each contribute RMB50,000,000 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;
- (e) the gap fund agreement entered into between TusStar Incubator Investment Ltd (“**TusStar**”), a subsidiary of Tus-Holdings, The Regents of the University of Michigan and the Company on 18 November 2017, in relation to the establishment of the gap fund with a proposed size of up to USD1,000,000 (equivalent to approximately HK\$7.78 million), which will be principally engaged in advancing the commercialisation potential of the University of Michigan research discoveries;
- (f) the cooperation agreement entered into between 啟迪雲智科技(北京)有限公司 (TUS Yunzhi Technology (Beijing) Limited)\* (“**TUS Yunzhi**”), an indirect wholly-owned subsidiary of the Company, 天津清雲智控科技有限公司 (Tianjin Qingyun Intelligent Control Technology Limited)\* (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 on 16 October 2017, 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 RMB100,000,000, of which RMB70,000,000 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 RMB30,000,000 to the joint venture;

- (g) an equity transfer agreement entered into between SDIC High-Tech (Shenzhen) Venture Capital Fund (Limited Partnerships) (“**SDIC High-Tech**”), Suzhou Qiyizhi and Suzhou Yinwo Investment Management Enterprise (Limited Partnership) (“**Suzhou Yinwo**”) on 15 September 2017, 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 RMB32,000,000;
- (h) 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 RMB28,000,000 and the issue of the warrants by the Company to Suzhou Yinwo;
- (i) an equity transfer agreement entered into between an independent third party and Suzhou Qiyizhi on 25 August 2017, pursuant to which Suzhou Qiyizhi conditionally agreed to acquire 7.10% equity interests in Suzhou Zhihua by Suzhou Qiyizhi in consideration of RMB30,530,000;
- (j) an equity transfer agreement entered into between 上海達晨恒勝創業投資中心(有限合伙)(Shanghai Dachen Hengsheng Venture Capital Centre (Limited Partnership)\*) (“**Dachen Hengsheng**”) and Suzhou Qiyizhi on 9 August 2017 in relation to the acquisition of 10.5039% equity interests in Suzhou Zhihua by Suzhou Qiyizhi in consideration of RMB39,914,728.70;
- (k) the co-operation agreement entered into between Suzhou Qiyizhi, Suzhou Zhihua and Suzhou Yinwo on 3 March 2017 in relation to (1) the provision of financial assistance by the Company to Suzhou Zhihua; and (2) the grant of the option by Suzhou Zhihua to Suzhou Qiyizhi;
- (l) the agreement entered into between Dachen Hengsheng, Mr. Xiong Renjie, Suzhou Zhihua and Suzhou Qiyizhi on 3 March 2017 in relation to the acquisition of an aggregate of 5% equity interests in Suzhou Zhihua by Suzhou Qiyizhi in consideration of RMB15,000,000;
- (m) the agreement entered into between 蘇州君契勢合投資管理企業(有限合伙)(Suzhou Junqi Shihe Investment Management Enterprise (Limited Partnership)\*), Suzhou Qiyizhi and Suzhou Zhihua on 3 March 2017 in relation to the acquisition of 1% equity interests in Suzhou Zhihua by Suzhou Qiyizhi in consideration of RMB3,000,000;

- (n) the conditional subscription agreement dated 1 March 2017 entered into between the Company, Tuspark Venture, Munsun Smart Mobility Fund LP, CM Securities Investment Limited and CM Securities (Hongkong) Company Limited (as sole lead arranger) relating to (among other) the subscription of the convertible bond issued by the Company (i.e. the 6% Convertible Bond due 2019) for an aggregate principal amount of HK\$300,000,000 by Tuspark Venture, Munsun Smart Mobility Fund LP and CM Securities Investment Limited; and
- (o) the joint venture agreement dated 17 February 2017 entered into between Sunny Voyage Limited, a direct wholly-owned subsidiary of the Company, and TusStar in relation to the establishment and management of an equity joint venture company in the BVI with limited liability.

## 8. EXPERTS AND CONSENT

The following are the qualifications the qualifications of the experts who have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Kost Forer Gabbay & Kasierer	Certified Public Accountants in Israel
HLB Hodgson Impey Cheng Limited	Certified Public Accountants in Hong Kong

As at the Latest Practicable Date, each of the experts named above:

- (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (ii) had no direct or indirect interest in any assets which had been, since 31 December 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group; and
- (iii) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name included herein in the form and context in which it appears.

**9. MISCELLANEOUS INFORMATION**

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Unit 416, Level 4, Core F, Cyberport 3, 100 Cyberport Road, Hong Kong.
- (c) The Cayman Islands principal share registrar and transfer office of the Company is SMP Partners (Cayman) Limited at Royal Bank House, 3/F., 24 Shedden Road, P.O. Box 1586, Grand Cayman KY1-1110, Cayman Islands.
- (d) The company secretary of the Company is Ms. Li Fung Shan, who is a member of Hong Kong Institute of Certified Public Accountants.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 416, Level 4, Core F, Cyberport 3, 100 Cyberport Road, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2015, 2016 and 2017;
- (c) the interim report of the Company for the six months ended 30 June 2018;
- (d) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;
- (e) the accountants' report on the Target Group issued by Kost Forer Gabbay & Kasierer set out in Appendix III to this circular;
- (f) the report on the unaudited pro forma financial information of the Enlarged Group issued by HLB Hodgson Impey Cheng Limited as set out in Appendix IV to this circular;

- (g) the material contracts referred to in the paragraph headed “7. Material Contracts” in this appendix;
- (h) the written consents referred to in the paragraph headed “8. Experts and Consent” in this appendix;
- (i) the irrevocable undertakings from the Relevant Shareholders referred to in “Voting undertakings” in the section headed “Letter from the Board” in this circular; and
- (j) this circular.

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## NOTICE OF EGM

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啟迪國際

TUS INTERNATIONAL

**TUS INTERNATIONAL LIMITED**

**啟迪國際有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 872)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**Meeting**”) of the shareholders of TUS International Limited (the “**Company**”) will be held at Regus Conference Centre, 35/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, at 10:30 a.m. on Tuesday, 29 January 2019 for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution:

#### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the agreement dated 12 July 2018 (as amended by the side letter dated 11 December 2018, collectively, the “**Acquisition Agreement**”) entered into between the Company, Telit Communications PLC (“**Telit Communications**”), Telit Wireless Solutions S.R.L (“**Telit Wireless**”, together with Telit Communications, the “**Vendors**”) and Telit Automotive Solutions NV (the “**Target Company**”) (a copy of which has been produced to this meeting marked “A” for the purpose of identification), pursuant to which the Company conditionally agreed to buy and the Vendors conditionally agreed to sell all the issued shares of the Target Company and the transactions contemplated thereby (collectively, the “**Acquisition**”) be and are hereby approved, confirmed and ratified;
- (b) any one director of the Company (“**Director(s)**”) or (if affixing of seal is required) any two Directors be authorised for and on behalf of the Company, among others, to execute, perfect, deliver (including under seal where applicable) all such other documents and deeds, and to do or authorise doing all such acts, matters and things, as he may in his absolute discretion consider necessary, expedient or desirable to give effect to and implement and/or complete all matters in connection with:

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- (a) the Acquisition, the Acquisition Agreement and all other transactions contemplated thereunder, and the closing and implementation thereof;
- (b) securing the fulfilment of the conditions precedent of completion of the Acquisition; and
- (c) the approval of any amendments or variations to the Acquisition Agreement or the granting of waivers of any matters contemplated thereby that are, in the Director's opinion, not fundamental to the transactions contemplated thereby and are in the best interests of the Company, including without limitation the signing (under the common seal of the Company where required or expedient) of any supplemental or ancillary agreements and instruments and the giving of any undertakings and confirmations for any such purposes."

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

Hong Kong, 26 December 2018

*Registered office:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head office and principal place*

*of business in the PRC:*  
Room KJ02-07, 2nd Floor,  
Qidi Ke Jian Building  
Building No. 6  
No. 1 Zhongguancun East Road  
Haidian District, Beijing, PRC

*Principal place of business in Hong Kong:*

Unit 416, Level 4, Cyberport 3,  
Core F, 100 Cyberport Road, Hong Kong

*Notes:*

- (i) Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (ii) In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the Meeting or any adjournment thereof.

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- (iii) Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) Where there are joint holders of any shares, any one of such joint holders may vote either in person or by proxy in respect of such shares as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company.
- (v) The transfer books and register of shareholders will be closed from 25 January 2019 (Friday) to 29 January 2019 (Tuesday), both days inclusive, in order to determine the entitlement of shareholders to attend the above Meeting, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 24 January 2019 (Thursday).
- (vi) As at the date of this notice, the board of directors of the Company comprises Mr. Ma Chi Kong Karl (Chairman), Mr. Du Peng and Mr. Shen Xiao who are executive Directors, Mr. Tsang Ling Bui, Gilbert and Mr. Qin Zhiguang who are non-executive Directors, and Hon. Quat Elizabeth (*JP*), Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan who are independent non-executive Directors.