啟迪國際有限公司
TUS International Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 872)

2019
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ma Chi Kong Karl *(Chairman)*
Mr. Du Peng
Mr. Shen Xiao
Mr. Lin Jian (appointed with effect from 1 April 2020)

Non-executive Directors

Mr. Tsang Ling Biu, Gilbert
Mr. Hu Bo (appointed with effect from 29 April 2019)
Mr. Qin Zhiguang (resigned with effect from 1 April 2020)

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Cheung Hing Lung Raphael (appointed as acting company secretary with effect from 1 April 2020)

AUTHORISED REPRESENTATIVES

Mr. Shen Xiao
Mr. Cheung Hing Lung Raphael

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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

WEBSITE OF THE COMPANY

www.tus-i.com

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Haidian District, Beijing, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 707-711, 7/F.
TusPark Workhub
118 Wai Yip Street
Kwun Tong
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House, 3/F
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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Hong Kong

AUDITORS

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

LEGAL ADVISERS

As to Hong Kong Law:
Sidley Austin
39/F, Two International Finance Centre
Central, Hong Kong

As to Cayman Island Law:
Conyers Dill & Pearman, Cayman
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL BANKERS

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

STOCK CODE

Stock Code: 00872.HK

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

Looking back to 2019, the global automobile industry was affected by the global economic uncertainty, including the Sino-US trade talks, the slowdown in China's economic growth and the competition from car-sharing services. This has led to a decrease in vehicle sales when comparing to 2018, but the intelligent vehicle industry was still in a rapid growth phase. We hope to grasp the market development opportunity to increase our market share in the future, add value to products and lower the cost through research and development to turn loss into profit.

BUSINESS REVIEW

During the year under review, the Group's total revenue and gross profit grew by 71.0% and 60.9% respectively to HK$781.8 million and HK$97.8 million, respectively compared with the last year. The rise in income was mainly attributable to the completion of the acquisition of automotive connectivity module business by the Group in February 2019 (the "Acquisition"). During the year under review, the automotive connectivity module business contributed income of HK$455.6 million and gross profit of HK$52.8 million to the Group after the Acquisition. The Company further optimized its products from this Acquisition and the Group's sales region expanded from China to other regions such as Asia, Europe and the US. After the Acquisition, the Company began the integration of its automobile connectivity module business with other businesses with the hope of enhancing our technical abilities in cloud control business and solidifying our global leading position in the rapidly-developing automobile connectivity market through cooperation.

In 2019, sales in camera advanced driving assistance system ("ADAS") business decreased as compared to the previous year which was attributable to the slowdown in China's economic growth and withdrawal from the low gross profit product market as a result of the Company's change of sales strategy in the second half of the year. We expect that the relevant impact would be visible only in the short-term mainly because the camera ADAS business initiated the cooperation with the cloud control business in 2019 through the provision of infrastructure equipment to the cloud control business. Camera ADAS' capabilities would be enhanced through the cooperation to explore new products and market segments. Moreover, the camera ADAS solution received the "2018 State Science and Technology Progress Second Class Award" in January 2019, which was an indication that our camera ADAS technology was widely recognised.

Another major development project of the Group, cloud control business, also achieved promising developments. In May 2019, we released the Shanghai Cloud Control Demonstration Project and Cooperation Program for L3/L4 China Standard. The Shanghai Cloud Demonstration Project is a comprehensive demonstration project of "vehicle and road network integration" based on the intelligent vehicle cloud control foundation platform. Cloud control business jointly announced with CICV and other enterprises the "V2X Safety Accreditation Protection System" in May 2019. The system was the first to realize the V2X direct linkage and communication identity accreditation and mutual communication among vehicle enterprises in China. The launch of the V2X Safety Accreditation Protection System can further provide a safe and controllable operation environment to "vehicle and road network integration" for China's vehicle enterprises. It can also provide protection to the systemic solution for the application that comprehensively support the intelligent connected vehicles in the city. We are of the view that the ultimate goal of cloud control business is to create a China standard intelligent vehicle autonomous controllable environment with cloud control foundation platform as its core for the empowerment of the industry and expedition of China automobile industry to "change lines and overtake others". In 2019, the Company also successfully entered into cooperation agreements in Shanghai and Changsha regarding its cloud control business. Various projects have recorded income according to their respective progress and contributed income of HK$29.0 million and gross profit of HK$16.3 million to the Group.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW *(CONTINUED)*

To improve the Group's overall financial condition, during the year under review, the Group has taken various measures to increase its liquidity and lower the debts including without limitation, the issuance of new shares and convertible bonds to Tuspark Venture and other investors in February 2019; the disposal of 51% equity interest in Suzhou Yadu Cloud Technology Co. Limited for RMB40,800,000 in April 2019; the extension of repayment date of convertible bonds in the principal amount of HK$300,000,000 for a year to June 2020 in April 2019; the conversion of convertible bonds in the principal amount of HK$61,000,000 into 69,004,524 ordinary shares in May 2019; and the cessation to inject capital into the automotive millimeter wave radar sensor business and the cessation of the relevant business in December 2019. The Group will continue its communication with major shareholders and investors to ensure the Group has sufficient liquidity to maintain the Company's business.

OUTLOOK AND FUTURE PROSPECTS

We expect 2020 to be a year with both challenges and opportunities to intelligent vehicle industry. On one hand, it is expected that the decline in global vehicle sales will continue, mainly due to the increase in tariffs under the trade protection policies by various countries, the potential decline in sales of diesel vehicles in response to the environmental protection regulation and expediting the investment in electric vehicle and other factors may indirectly impact the short-term demand for intelligent vehicle equipment. In addition, we expect that the consumer market in China and automakers' supply chain will be hit by the outbreak of coronavirus in the first quarter of 2020, which will further affect the demand for the intelligent vehicle industry in the first half of 2020. On the other hand, however, the surge in demand for new technology such as vehicle real-time communication and monitoring equipment and the requirement of real-time road monitoring imposed by the vehicle safety regulations of various countries may boost demand for relevant equipment.

In 2020, the Group will focus on the integration of its business segments. The camera, vehicle connectivity module and cloud control business will be integrated to develop new products and new markets to achieve synergistic effects. All business segments could also enhance its technical abilities through cooperation. Moreover, we shall continue to leverage the national intelligent connected vehicle platform to enhance the cooperation among the relevant parties for strengthening our research and development capabilities and developing new products together. The Group will also focus on the internal management for the enhancement of its operating efficiency to slash its overall operating cost.

Tus-Holdings, being the largest shareholder of the Company, announced in November 2019 that Xiong'An Management Committee and Tsinghua Holdings may become its largest shareholders upon completion of a share purchase and capital increase agreement in respect of Tus-Holdings. The Group is actively implementing the "vehicle road cloud integration" solution and is underway in Xiong'An new district. We expect the development in Xiong'An new district will play an active role in the promotion of "vehicle road cloud integration" solution nationally.

The Group will continue to communicate with different stakeholders including investors, government authorities, employees, customers, suppliers and different local organisations so that the Group can gain sufficient information regarding environmental conservation, health of employee, safety, development and training, supply chain management, product responsibility, anti-corruption and investment in communities and thereafter formulate relevant policies to satisfy the demands from different stakeholders.

OUTLOOK AND FUTURE PROSPECTS *(CONTINUED)*

The Group has conquered many hardships in the past few years through the reorganization to implement the Company's long-term development strategy and vision. On behalf of the Board, I would like to thank all the stakeholders of the Company including customers, suppliers, investors, banks and staff for their support to our Group. The management team will continue to devote its effort in creating long-term value for all our shareholders.

Ma Chi Kong Karl
Chairman
Hong Kong, 25 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

The Group is dedicated to developing autonomous driving systems based on highly integrated multi-sensors, vehicle cloud computing and deep learning artificial intelligence and is committed to provide full-stack autonomous driving solutions. ADAS, as a transitional technology to complete autonomous driving, comprises several control points, among others, sensors, connectivity, mapping, processors and software algorithms which are designed to improve pedestrian and passenger safety and to help the driver to remain in control to avoid accidents and reduce damage.

2019 was a tough year for global auto industry due to saturation in developed markets, slow economic growth in China and increasing trade war tariffs as a result of China-US trade dispute. The number of cars sold worldwide was decreased to approximately 90.3 million units (2018: 94.4 million units) while China auto sales fell by 7.9% to approximately 25.8 million units (2018: 28.0 million units). It is expected that slowdown of global auto industry will continue in 2020 owing to weakening demand in China and Western Europe and outbreak of COVID-19 coronavirus in January 2020 which disrupted the supply chains of the industry and decreased the passenger vehicle sales in China by 92% in the first half of February 2020. The slowdown in auto industry will affect the ADAS and autonomous driving industry in the first half of 2020 despite being a fast growing industry in the past years. The global ADAS market size is projected to reach US$189 billion by 2026 with compound annual growth rate ("CAGR") of 21.4% from 2019 to 2026. The major factors driving the growth of the ADAS market are, among others, high demand for safety features, stringent safety rules and regulations, increased requirement for comfort and increased adoption from the automotive sector. It is expected that the China's ADAS market will experience rapid growth due to possibility of upcoming mandatory regulations in basic safety systems and the current low penetration rate in China. However, high installing cost in vehicles and complex structure of systems which requires skilled workers could impact on the growth of the ADAS market significantly. The ADAS segment of the Group includes intelligent connected vehicles business, radar-based ADAS business, software algorithms business and Titan Automotive Solutions N.V. (previously named as Telit Automotive Solutions N.V.) (the "Wireless Business Group").

The Group has tapped into intelligent connected vehicles business since 2017 through 44.7538% equity interest in Suzhou Zhihua Automobile Electronics Co., Ltd ("Suzhou Zhihua") and Beijing Yinwo Automobile Technology Company Limited (collectively, "Suzhou Zhihua Group"). Suzhou Zhihua Group is principally engaged in production and sales of ADAS products among others, around view monitoring systems, lane departure warning systems, forward collision warning systems ("camera-based ADAS"), which possesses competitive advantage in camera-based ADAS solutions with strong client base in China. In the event that the Company fully exercises the option granted by Suzhou Zhihua in favour of Suzhou Qiyizhi Management Enterprise Limited ("Suzhou Qiyizhi"), a subsidiary of the Company, it is expected that the Company will indirectly hold an aggregate of approximately 51.5384% equity interests in Suzhou Zhihua Group. The Company is considering to collaborate with different strategic partners in order to strengthen its technological capabilities and share investment risks in camera-based ADAS business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(CONTINUED)*

For radar-based ADAS business, Kymati GmbH, a joint venture which is held as to approximately 75.28% by an indirect wholly-owned subsidiary of the Company, was formed for the development, production and international marketing of automotive millimeter wave radar sensor components and sensor systems for environment recognition, distance and position measuring, measuring of objects and performance of related services. Since establishment, the Group has contributed approximately EUR18,821 and EUR1.36 million to the joint venture as share capital and capital reserve. The Group intends to leverage existing camera-based ADAS's business relationships in China to promote the radar solution from the joint venture and strengthen the functionality of its products by the combined use of cameras and millimeter wave radars for sensor fusion. Reference is made to the announcement on 8 January 2020. Having considered the continuing net operating loss of the joint venture of approximately EUR149,000 for the year ended 31 December 2018 and EUR772,000 for the eleven months ended 30 November 2019 and future growth potential of the joint venture, the Group decided not to make further investment in the joint venture and in December 2019, the shares held by the Group had been compulsorily redeemed in full pursuant to the terms of the shareholders agreement. Since completion of the redemption, the joint venture ceased to be a subsidiary of the Company and the assets and liabilities and results of operation of the joint venture were no longer consolidated into the consolidated financial statements of the Company. As a result, the Group recorded an impairment loss of approximately HK$4.7 million.

For software algorithms business, the Company has established TUS Cloud Control (Beijing) Technology Limited ("TUS Cloud Control") with registered share capital of RMB100 million of which 70% was contributed by the Group to develop intelligent and connected vehicles big data cloud platform technology and related business. TUS Cloud Control aims to connect all vehicles, infrastructure, pedestrians into a holistic mobility system, facilitate intelligent data exchange among mobility system and motion control, and provide big data and cloud artificial intelligence services.

In 2018, each of TUS Cloud Control and certain leading enterprises of the industry including automotive original equipment manufacturers and mobility service providers, contributed an aggregate of RMB50.0 million, jointly established the National Innovation Center which was positioned as the core source of forward-looking and common cross key technologies, core public platform of research and development, transformation of technological achievements, innovation and development of the industry, and the base in gathering and cultivating high-end talents. As of 31 December 2019, there were 18 members (2018: 18) in the National Innovation Center with registered share capital of RMB900.0 million (including unpaid registered capital of RMB70.0 million) (2018: RMB900 million) of which 5.56% (2018: 5.56%) was contributed by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(CONTINUED)*

In May 2019, TUS Cloud Control released the Shanghai Cloud Control Demonstration Project and Cooperation Program for L3/L4 China Standard to build a Chinese-charactered intelligent vehicle industry based on cloud control. The Shanghai Cloud Control Demonstration Project is a comprehensive demonstration project of "vehicle-road-cloud computing autonomous driving solutions" based on the intelligent vehicle cloud control basic platform. This project is awarded by National Development Reform Commission ("NDRC") as "Made-in-China Core Competence Enhancing Project 2019". The Shanghai Cloud Control Demonstration Project includes city road of 51.8 km in Jiading District Shanghai and expressway of 20 km from Hongqiao Airport to Shanghai Auto City. The Group will standardise the design, construction, implementation and commercial operation of the cloud control infrastructure platform system after completing this demonstration project. The Group will also promote such standard and provide support for the innovation of industrial form and business model, and build an integrated intelligent automobile industry ecosystem. During the year ended 31 December 2019 (the "Year"), the software algorithms business recorded revenue of approximately HK$29.0 million (2018: nil). The Company is considering to collaborate with different strategic partners in order to strengthen its technological capabilities and share investment risks in software algorithms business.

In July 2018, the Group entered into vehicle connectivity market by acquiring the Wireless Business Group at the aggregate consideration of US$105.0 million (subject to adjustments with reference to the aggregate cash, debt and working capital of the Wireless Business Group at completion). The Wireless Business Group is one of the major suppliers of automotive connectivity module globally which supplies electronic modules connecting cars and infrastructure via wireless communication such as cellular networks (2G, 3G, 4G/LTE, LTE-A and in the future 5G technology) as well as per vehicle to vehicle V2X communication schemes. The Wireless Business Group has research and development centres in France, Belgium and Israel and its major customers are mainly blue-chip OEMs and tier one suppliers. The Wireless Business Group does not have its own production facilities and outsources the electronic manufacturing process to a leading semiconductor packaging and testing services provider. The Group plans to continue expanding its customer base, in particular in China, and its promotion of new LTE/V2X/5G modules and solutions by collaborating with its software algorithms business.

The acquisition of the Wireless Business Group was completed on 27 February 2019 and the results of the Wireless Business Group have been consolidated into the consolidated financial statement of the Company upon completion of the acquisition on 27 February 2019. During the Year, the Wireless Business Group contributed revenue of approximately HK$455.6 million (2018: nil). Intangible assets including technical know-how, brand name and customer relationship, and goodwill arising from acquisition as of the date of completion amounted to approximately HK$383.0 million and HK$486.5 million respectively.

Other Businesses

After years of transition, the Company has successfully transformed to cloud control and intelligent autonomous driving service providers and become one of the most influential players in the intelligent connected vehicles industry in China. The Company further expanded its business to Europe, North America and Asia Pacific during the Year through acquisition of the Wireless Business Group. As a result, segments of car trading, and finance lease of motor vehicles and equipment became non-core businesses of the Group.

On 3 January 2019, the Group entered into a memorandum of understanding in relation to the potential disposal of 51% equity interest in Suzhou Yadu Cloud Technology Co. Limited*（蘇州亞都雲科技有限公司）("Suzhou Yadu") to Yadu Technology Group Co., Ltd.（亞都科技集團有限公司）as a result of adjustments on business strategies of the Group and the unsatisfactory business performance of Suzhou Yadu.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(CONTINUED)*

Other Businesses *(Continued)*

On 12 April 2019, the Group entered into a disposal agreement to dispose 51% of the equity interest of Suzhou Yadu at the consideration of RMB40.8 million (equivalent to approximately HK$46.1 million) (the "Suzhou Yadu Disposal"). An extraordinary general meeting was held on 26 June 2019 and the ordinary resolution approving the Suzhou Yadu Disposal was passed by way of poll. Further details of the Suzhou Yadu Disposal are set out in the announcements of the Company dated 7 January 2019, 12 April 2019 and 26 June 2019, and the circular of the Company dated 10 June 2019.

Upon completion of the Suzhou Yadu Disposal, the Group will cease the operation of car-carried purifiers business and the Company also suspended its business in car trading segment during the Year as a result of the strategic transformation of the Group's business as mentioned above. The Company will continue its businesses in ADAS segment and finance lease of motor vehicles and equipment segment and will monitor the business performance and adjust the strategies for those segments as and when appropriate.

FUTURE PLANS AND PROSPECTS

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

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

FINANCIAL REVIEW

The revenue and gross profit of the Group for the Year increased by approximately 71.0% and 60.9% to approximately HK$781.8 million and HK$97.8 million respectively (2018: HK$457.2 million and HK$60.8 million respectively). Such increase was primarily due to the acquisition of automotive-grade connectivity module business which was completed on 27 February 2019. The results of the Wireless Business Group have been consolidated into the consolidated financial statements of the Company upon completion of such acquisition on 27 February 2019. Despite such increase in revenue and gross profit, the net loss for the Year increased by 134.5% to approximately HK$301.3 million (2018: HK$128.5 million). It was primarily due to the significant increase in research and development expenses, finance costs and administrative expenses by 923.8%, 23.3% and 100.9% respectively to approximately HK$103.4 million, HK$66.6 million and HK$203.5 million respectively (2018: HK$10.1 million, HK$54.0 million and HK$101.3 million respectively).

ADAS Products

Revenue of ADAS products ("ADAS Segment") is mainly generated from camera-based ADAS, radar-based ADAS, software algorithms business and auto-grade wireless communication module. Major customers of ADAS segment comprise mainstream automakers in China and blue-chip OEMs and tier one suppliers in Europe, the US and Asia Pacific. Revenue and gross profit of ADAS Segment grew by 123.5% and 130.6% to approximately HK$733.2 million and HK$89.7 million respectively for the Year (2018: HK$328.0 million and HK$38.9 million) as a result of completion of acquisition of the Wireless Business Group in February 2019. The ADAS Segment recorded gross profit margin of 12.2% for the Year (2018: 11.9%).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(CONTINUED)*

ADAS Products *(Continued)*

Going forward, camera-based ADAS and Wireless Business Group could lower cost of sales by improving products quality through research and development and streamline supply chains to improve operation efficiency of the Company. Software algorithms business would leverage the experience gained this year to develop cloud platform businesses in China. In the long run, camera-based ADAS segment will collaborate with others ADAS business to develop new products in China and expand its market channel overseas. Camera-based ADAS would strengthen its capabilities through collaboration with different strategic partners to diversify existing product mix to tap into commercial vehicles sector, develop high-end products and increase sales mix of services income. It is expected that the above strategic moves could improve gross profit margin and financial performance accordingly.

Car-carried Purifiers

The Group has adjusted its overall strategy to focus on cloud control and intelligent autonomous driving services since 2017. In addition, the haze control measures in Beijing are more effective than expected, resulting in a sharp decline in market demand for car-carried purifiers. As such, there was no revenue and gross profit for the car carried purifiers segment during the Year (2018: nil and nil respectively).

Car Trading

Car trading segment business has been suspended during the Year due to the changes of the Company's overall strategy since 2017 and the Group intended to focus its resources to develop ADAS's business segment. As a result, there was no revenue and gross profit for the car trading during the Year (2018: HK$2.0 million and HK$0.1 million respectively).

Finance Lease of Motor Vehicles and Equipment

The revenue and gross profit of finance lease of motor vehicles and equipment business dropped by 61.8% and 62.7% to approximately HK$48.6 million and HK$8.1 million respectively during the Year (2018: HK$127.2 million and HK$21.7 million). It is expected that the revenue of the segment will be decreasing as the Group has focused its resources to develop cloud control and intelligent autonomous driving services since 2017.

Other Revenue

During the Year, other revenue of the Group increased to approximately HK$10.8 million (2018: HK$3.3 million) which mainly included bank interest income and recharge income from customer of approximately HK$0.8 million (2018: HK$1.9 million) and HK$7.1 million (2018: nil) respectively.

Other Gain and Loss

During the Year, other losses increased to approximately HK$19.6 million (2018: HK$9.0 million) which was primarily due to the loss on disposal of subsidiaries and exchange difference of approximately HK$10.3 million and HK$7.3 million respectively.

Research and Development Expenses

During the Year, research and development expenses before capitalisation amounted to approximately HK$170.4 million (2018: HK$75.8 million) in which approximately HK$67.0 million (2018: HK$65.7 million) was capitalised as intangible assets. Research and development expenses after capitalisation for the Year surged by 923.8% to approximately HK$103.4 million (2018: HK$10.1 million). Such increase was primarily due to completion of acquisition of the Wireless Business Group in February 2019 which has approximately 89 research and development staff in France, Belgium and Israel. As of the date of this report, the Group also has 186 research and development staff in Suzhou and Beijing for the development of camera-based ADAS and intelligent and connected vehicles big data cloud platform technology and related business.

FINANCIAL REVIEW *(CONTINUED)*

Selling and distribution expenses

During the Year, selling expenses and distribution expenses, representing 1.8% of the Group's revenue (2018: 2.7%), grew by 17.2% to approximately HK$14.3 million (2018: HK$12.2 million). Such increase was primarily due to completion of acquisition of the Wireless Business Group in February 2019.

Administrative Expenses

During the Year, administrative expenses, representing 26.0% of the Group's revenue (2018: 22.1%), rose by 100.9% to approximately HK$203.5 million (2018: HK$101.3 million) which was primarily due to increase in depreciation and amortisation and salaries as a result of the completion of acquisition of the Wireless Business Group in February 2019.

Finance Costs

During the Year, finance costs grew by 23.3% to approximately HK$66.6 million (2018: HK$54.0 million) as a result of the increase in interest expenses on bank loans from approximately HK$4.5 million for the year ended 31 December 2018 to approximately HK$23.8 million for the Year.

Share of loss of an associate

There was no share of loss of an associate for the Year (2018: HK$1.6 million).

Share of loss of a joint venture

Share of loss of a joint venture for the Year amounted to approximately HK$1.1 million (2018: HK$1.9 million).

Taxation

Certain subsidiaries of the Company in the PRC generated net profit and the Group recorded PRC income tax expense amounting to approximately HK$2.6 million for the Year (2018: HK$1.7 million). On the other hand, the Group recorded a deferred tax credit of approximately HK$13.5 million (2018: HK$3.3 million) due to the reversal of temporary differences and HK$0.9 million (2018: nil) due to over-provision in prior year. As a result, the Group recorded income tax credit of approximately HK$11.8 million during the Year (2018: HK$1.6 million).

Net loss attributable to shareholders

As a result of the factors discussed above, the Group's net loss for the Year widened to approximately HK$301.3 million (2018: HK$128.5 million).

Financial assets at fair value through other comprehensive income

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

As at 31 December 2019, investments of approximately HK$265.4 million were classified under FVTOCI (31 December 2018: HK$314.6 million) and impairment loss of approximately HK$45.6 million (2018: HK$100.7 million) was recognised due to changes in fair value of investments during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(CONTINUED)*

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

Details of the investments are as follows:

	31 December 2019 HK$ million	Fair value gain/(loss) recognised through OCI during the Year HK$ million	Exchange differences HK$ million	Investments acquired during the Year HK$ million	31 December 2018 HK$ million
18% equity interest in More Cash Limited *(note 1)*	30.4	(40.7)	–	–	71.1
2.46% equity interest in Sino Partner Global Limited	36.6	(2.5)	–	–	39.1
14% equity interest in Tus Suzhou Fashion & Education Development Co., Ltd ("Tus Suzhou") * （蘇州啟迪時尚教育發展有限公司）*(note 2)*	149.4	(1.4)	–	–	150.8
5.56% equity interest in National Innovation Center of Intelligent Connected Vehicles ("the National Innovation Center")	46.9	(3.4)	(0.9)	–	51.2
Gap fund with TusStar and MICHIGAN *(note 3)*	0.5	(0.3)	–	–	0.8
9.8% equity interest in Suzhou Udas Automotive Technology Co., Ltd* （蘇州優達斯汽車科技有限公司）("Suzhou Udas")	1.6	–	–	–	1.6
Total	265.4	(48.3)	(0.9)	–	314.6

* *For identification purpose only*

Note 1: On 14 April 2020, a wholly owned subsidiary of the Company, Bright Ample Limited entered into a sale and purchase agreement and agreed to sell 18% of the equity interests in More Cash Limited to Hung Hon Man, an independent third party, at a consideration of HK30.0 million.

Note 2: Formally known as Suzhou Ziguang Innovative Education Development Company Limited

Note 3: On 18 November 2017, TusStar Incubator Investment Ltd. ("TusStar"), of which Tus-Holdings Co., Ltd is the holding company, the Regents of the University of Michigan ("MICHIGAN") and the Company entered into a gap fund agreement in relation to a proposed establishment of the gap fund with a proposed size of up to USD1.0 million (approximately HK$7.78 million), which will be principally engaged in advancing the commercialisation potential of MICHIGAN research discoveries.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(CONTINUED)*

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

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

As at 31 December 2019

	Value of input (e.g. the projected cash flow, discount rate and growth rate) used in the valuations together with the basis and assumptions	Valuation methodology	Reasons for subsequent changes in value of input and assumptions or changes in the valuation methodology from those previously adopted
18% equity interest in More Cash Limited	Weight average cost of capital ("WACC"): 9.44% (31 December 2018: 9.09%); Discount for lack of control: 9.7%; Long term growth rate: 3.00%	Income approach – discount cash flow	N/A
2.46% equity interest in Sino Partner Global Limited	WACC: Supercar segment 16.04% (2018: 18.03%); Discount for lack of marketability: 20.00% (2018: 25.00%); Long term growth rate: 2.0%	Income approach – discount cash flow	N/A
14% equity interest in Tus Suzhou	No unobservable inputs	Asset approach	N/A
5.56% equity interest in the National Innovation Center	No unobservable inputs	Asset approach	N/A
Gap fund with TusStar and MICHIGAN	No unobservable inputs	Asset approach	N/A
9.8% equity interest in Suzhou Udas	WACC: 15.48% (31 December 2018: 14.66%); Discount for lack of control: 22.60%; Long term growth rate: 3.00%	Income approach	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(CONTINUED)*

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

In 2015, the Group acquired 18% of the entire issued share capital of More Cash Limited and its subsidiaries (the "More Cash Group") at a consideration of HK$73.0 million in which indirectly owns 75% equity interest in a company established in the PRC. The principal activity of the PRC subsidiary is development and sales of properties complex located in Guangzhou City comprised car park, shopping mall, office, apartment, hotel and restaurant in a commercial and residential complex. Based on the unaudited financial statements of More Cash Limited, the revenue and gross profit of More Cash Group for the Year amounted to approximately HK$56.3 million and HK$28.2 million respectively (2018: HK$77.4 million and HK$41.9 million) and it recorded net profit of approximately HK$10.7 million for the Year (2018: HK$10.0 million). As of 31 December 2019, as a result of changes in exchange reserve, the total assets and net asset value of More Cash Group were approximately HK$1,501.9 million and HK$620.7 million respectively (31 December 2018: HK$1,595.9 million and HK$699.3 million). During the Year, the Group did not receive any dividend from the investment. As of 31 December 2019, fair value of the Group's 18% equity interest in More Cash Limited was approximately HK$30.4 million (2018: HK$71.1 million) and impairment loss of approximately HK$40.7 million was recorded during the Year (2018: impairment loss of HK$1.9 million). On 14 April 2020, a wholly owned subsidiary of the Company, Bright Ample Limited entered into a sale and purchase agreement and agreed to sell 18% of the equity interests in More Cash Limited to Hung Hon Man, an independent third party, at a consideration of HK30.0 million.

In 2016, the Group acquired 7.88% of the total issued share capital of Sino Partner Global Limited ("Sino Partner") at a consideration of HK$136.0 million. Sino Partner and its subsidiaries are principally engaged in the design, development, manufacturing and sales of high performance supercars under the brand "Apollo" in China, Europe and internationally. On 2 October 2018, Sino Partner issued convertible note at the principal amount of approximately HK$55.2 million which was fully converted on 16 January 2019. As a result of the conversion, the Company's effective equity interest in Sino Partner decreased from 7.88% to 2.46%. Based on the audited financial statements of Sino Partner, Sino Partner recorded revenue and gross profit of approximately HK$4.3 million and HK$3.9 million respectively for nine months ended 30 September 2019 (for the year ended 31 December 2018: revenue of HK$5.4 million and gross loss of HK$3.9 million) and net loss of approximately HK$15.4 million for the nine months ended 30 September 2019 (for the year ended 31 December 2018: HK$77.4 million). As of 30 September 2019, the total assets and net liabilities of Sino Partner were approximately HK$168.1 million and HK$14.0 million respectively (31 December 2018: total assets of HK$129.8 million and net liabilities of HK$63.5 million). During the Year, the Group did not receive any dividend from the investment. As of 31 December 2019, fair value of the Group's 2.46% equity interest in Sino Partner was approximately HK$36.6 million (2018: HK$39.1 million) and impairment loss of approximately HK$2.5 million was recorded during the Year (2018: HK$96.9 million).

In 2016, the Group acquired 14% of the total issued share capital of Tus Suzhou at a consideration of RMB126.8 million. Tus Suzhou and its subsidiaries are 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. Based on the unaudited financial statements of Tus Suzhou, the revenue of Tus Suzhou for the Year amounted to approximately RMB18.7 million (2018: RMB13.8 million) and the net profit for the Year amounted to approximately RMB6.9 million. As of 31 December 2019, the total assets and net asset value of Tus Suzhou were approximately RMB1,522.1 million and RMB613.7 million respectively (31 December 2018: RMB1,466.7 million and RMB606.8 million). During the Year, the Group did not receive any dividend from the investment. As of 31 December 2019, fair value of the Group's 14% equity interest in Tus Suzhou was approximately HK$149.4 million (2018: HK$150.8 million). Exchange loss and increment in fair value adjustments in respect of Tus Suzhou during the Year amounted to approximately nil and HK$1.4 million respectively (2018: HK$8.2 million and HK$5.5 million).

FINANCIAL REVIEW *(CONTINUED)*

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

In 2018, the Group acquired 9.09% of the total share capital of National Innovation Center at a consideration of RMB50.0 million which is primarily engaged in development of technology, undertake research and development relevant to China to meet the needs of developing products and technical advisory services as well as providing consultation and testing services for China's intelligent connected vehicle industry. Based on the audited financial statements of National Innovation Center, the revenue for the Year amounted to approximately RMB3.9 million (2018: RMB0.8 million) and the net loss for the Year amounts to approximately RMB50.5 million (2018: RMB15.8 million). As of 31 December 2019, National Innovation Center has total assets and net asset value of approximately RMB908.6 million and RMB763.7 million respectively (31 December 2018: RMB843.7 million and RMB814.2 million). During the Year, the Group did not receive any dividend from the investment. As of 31 December 2019, fair value of 5.56% equity interest in National Innovation Center was approximately HK$46.9 million (2018: HK$51.2 million). Exchange loss and impairment loss during the Year amounted to approximately HK$0.9 million and HK$3.4 million respectively (2018: HK$1.7 million and HK$5.8 million).

GOODWILL

During the Year, goodwill arising on acquisition of the Wireless Business Group amounted to approximately HK$486.5 million, representing the differences between the consideration and fair value of identifiable net assets acquired. As of 31 December 2019, goodwill amounted to approximately HK$651.3 million (2018: HK$164.8 million). For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") as follows:

	31 December 2019 HK$ million	Impairment HK$ million	Addition during the Year HK$ million	31 December 2018 HK$ million
Camera-based ADAS CGU	161.4	–	–	161.4
Finance lease CGU	3.4	–	–	3.4
Wireless Business Group CGU	486.5	–	486.5	–
Total	651.3	–	486.5	164.8

The Group carried out an impairment testing on each CGU with reference to the valuation report issued by the independent valuer as at 31 December 2019.

The value in use of the camera-based ADAS CGU has been measured by using cash flow projection based on the cash flows covering a 5-year period with discount rate and terminal growth rate of 12.33% (2018: 12.75%) and 3% (2018: 3%) respectively. For the goodwill impairment test of 2019, the assumptions are consistent and there are no significant changes to the assumptions. As the recoverable amount of the cash-generating unit is higher than its corresponding carrying amount, no impairment is needed as at 31 December 2019 in accordance with the valuation result.

MANAGEMENT DISCUSSION AND ANALYSIS

GOODWILL *(CONTINUED)*

The value in use of the finance lease CGU has been measured by using cash flow projection based on the cash flows covering 5-year period with discount rate and terminal growth rate of 8.91% (2018: 9.62%) and 3% (2018: 3%) respectively. For the goodwill impairment test of 2019, the assumptions are consistent and there are no significant changes to the assumptions. As the recoverable amount of the cash-generating unit is higher than its corresponding carrying amount, no impairment is needed as at 31 December 2019 in accordance with the valuation result.

The value in use of the Wireless Business Group CGU has been measured by using cash flow projection based on the cash flows covering 5-year period with discount rate and terminal growth rate of 19.18% and 1.8% respectively. As the recoverable amount of the cash-generating unit of Wireless Business Group CGU is higher than its corresponding carrying amount, no impairment is needed as at 31 December 2019 in accordance with the valuation result.

Use of Proceeds

References are made to the announcements of the Company dated 11 January 2019, 15 January 2019, 30 January 2019 and 27 February 2019 and the circular of the Company dated 15 January 2019 in relation to the issuance of shares and convertible bonds by the Company. On 11 January 2019, the Company and Tuspark Venture Investment Ltd. ("Tuspark Venture") entered into a subscription agreement (the "Tuspark Subscription Agreement") to allot and issue approximately 239,000,000 new ordinary shares with a par value of HK$0.01 each in the capital of the Company (the "Share(s)") (aggregate nominal value of approximately HK$2,390,000) at the subscription price of HK$0.6084 per Share and the 0% coupon convertible bonds due 2025 in the aggregate principal amount of approximately HK$89.9 million at the total consideration representing 100% of the principal amount which may be converted into approximately 147,700,000 conversion Shares at the initial conversion price of HK$0.6084 per share (the "Tuspark Subscription"). On 11 January 2019, the Company and E-Town International Holding (Hong Kong) Co., Limited ("E-Town") entered into a subscription agreement (the "E-Town Subscription Agreement") to allot and issue, approximately 387,100,000 new Shares (aggregate nominal value of approximately HK$3,871,000) at the subscription price of HK$0.6084 per Share (the "E-Town Subscription"). Tuspark Venture is a substantial shareholder of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Tuspark Subscription constituted a connected transaction of the Company and was subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Pursuant to the Listing Rules, the E-Town Subscription was subject to shareholders' approval. Completion of the Tuspark Subscription and the E-Town Subscription took place on 27 February 2019. The net proceeds were approximately HK$470.0 million, all of which were used for settlement of the consideration for the acquisition of Telit Automotive Solutions N.V. (The name of Telit Automotive Solutions NV was changed to Titan Automotive Solutions N.V. on 14 May 2019). The closing price of the Shares as quoted on the Stock Exchange on 11 January 2019, being the date of the Tuspark Subscription Agreement and the E-Town Subscription Agreement, was HK$0.71 per Share. The net price per subscription Share and conversion Share was approximately HK$0.6070.

GOODWILL *(CONTINUED)*

Use of Proceeds *(Continued)*

References are made to the announcements of the Company dated 30 January 2019 and 27 February 2019. The Company, Dawin (H.K.) Limited ("Dawin") and Mr. Piao Xingfeng ("Mr. Piao"), the ultimate beneficial owner of entire issued share capital of Dawin entered into a subscription agreement (the "Dawin Subscription Agreement"), pursuant to which Dawin conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, approximately 45,000,000 new Shares (aggregate nominal value of approximately HK$450,000) at the subscription price of HK$0.6084 per Share under general mandate at the total consideration of approximately HK$27.4 million, which was settled by way of set off against the equivalent amount of the outstanding loan amount of the unsecured loan facilities of up to US$8 million granted by Mr. Piao to the Company pursuant to the loan agreement dated 7 June 2018 entered into between the Company as borrower and Mr. Piao as lender, as amended and supplemented by the supplemental agreements dated 14 September 2018 and 28 January 2019 entered into by the same parties. Thus, no cash proceeds were received by the Company from such subscription. Completion of such subscription by Dawin took place on 27 February 2019. The closing price of the Shares as quoted on the Stock Exchange on 30 January 2019, being the date of the Dawin Subscription Agreement, was HK$0.72 per Share. The net price per subscription Share was approximately HK$0.6084.

References are made to the announcement on 16 May 2016 and 27 May 2016 for the issuance of HK$61.0 million 0% convertible bonds due 2019 with initial conversion price of HK$0.884. On 24 May 2019, approximately 69.0 million new ordinary shares were alloted and issued at HK$0.884 per share.

LIQUIDITY, FINANCIAL RESOURCES , CAPITAL STRUCTURE AND FUNDING AND TREASURY POLICY

Going Concern

The Group recorded a net loss of approximately HK$301.3 million for the Year (2018: HK$128.5 million) and net current liabilities of approximately HK$656.1 million as of 31 December 2019 (31 December 2018: net current assets of approximately HK$120.2 million) which may have a considerable impact on the liquidity position of the Group. Nevertheless, the management of the Company considers the liquidity position of the Group is sufficient to operate as a going concern in the foreseeable future as the Group maintains a healthy financial position as of 31 December 2019 with cash and cash equivalents and net assets value of approximately HK$117.3 million and HK$600.8 million respectively. In particular, the management of the Company has given consideration to the following steps taken which are expected to strengthen the Group's financial position:

1. The Company has actively negotiated with banks to secure the renewals of the Group's bank borrowings to meet its liabilities when fall due;

2. The Group is currently in discussion with a bank on a waiver and potential restricting of certain financial covenants under the loan agreement;

3. The Group has received a written confirmation dated 15 March 2020 from Tuspark Venture Investment Limited ("Tuspark Venture"), one of the major shareholders of the Company, that it will provide financial support to the Group in the following 24 months on a going concern basis. Such assistance to be received by the Group will not be secured by any assets of the Group.

   Subsequent to the above, Tuspark Venture received a written confirmation dated 20 May 2020 from Tus-Holdings Co., Ltd., its holding company, that it will provide financial support to the Tuspark Venture in the following 24 months;

MANAGEMENT DISCUSSION AND ANALYSIS

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

Going Concern *(Continued)*

4. As at the date of approval of these consolidated financial statements, the Group has signed an agreement to obtain a financing from a financial institution;

5. 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;

6. The Group may consider to dispose non-core business and/or financial assets if required; and

7. The Company has actively negotiated with investors for the extension of convertible bonds and obtaining further financing when necessary including but not limited to shareholder's loan, equity financing, bank borrowing and issuance of new convertible bonds to improve the liquidity of the Group.

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.

Net Borrowing Position

The total borrowings, including borrowings and convertible bonds, as at 31 December 2019 increased by approximately 68.9% to approximately HK$879.9 million (31 December 2018: HK$521.1 million). The change in total borrowings was mainly attributable to a new banking facility of US$38.5 million for the purpose of acquisition of the Wireless Business Group, which was partly offset by the conversion of all of the 0% coupon convertible bonds due May 2019 in the aggregate principal amount of HK$61.0 million during the Year. In addition, cash and bank balances and pledged deposits as at 31 December 2019 remained at similar level of approximately HK$117.3 million (31 December 2018: HK$104.0 million). As such, the net borrowings increased by 82.8% to approximately HK$762.6 million (31 December 2018: HK$417.1 million).

Structure of Interest-Bearing Borrowings and Net Borrowing Position

The Group's short-term borrowings increased to approximately HK$487.0 million as at 31 December 2019 (31 December 2018: HK$133.3 million). Such increase was primarily due to a new 36-month fixed term loan (the "Banking Facilities") in the aggregate principal amount of US$38.5 million with certain financial covenants. Based on the audited account of the Wireless Business Group for the Year, it has failed to fulfil certain financial covenants as stated in the terms of the Banking Facilities. Therefore, US$38.5 million was reclassified as short-term borrowings. Such breach entitles the lender to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Banking Facilities immediately due and payable.

As at the date of this report, the lender has not declared any outstanding amount to be due and payable under the Banking Facilities. The Company is currently in discussions with the lender on a waiver and potential restructuring of certain financial covenants under the Banking Facilities and there has been good progress in the discussions. The Board, based on legal advise, also wishes to emphasize that there has been no cross default under any outstanding convertible bonds issued by the Company. The Company remains in full compliance with the terms and conditions of all its outstanding convertible bonds.

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

Structure of Interest-Bearing Borrowings and Net Borrowing Position *(Continued)*

Short-term borrowings included bank loans in an aggregate principal amount of approximately HK$400.9 million (31 December 2018: HK$83.6 million) with floating interest rate of LIBOR plus 2.1% – 2.4% and fixed interest rates of 4.79% – 6.80% (31 December 2018: 4.79% – 5.66%), and other loans of approximately HK$86.1 million (31 December 2018: HK$49.7 million) with fixed interest rates of 4.4% – 14.0% (31 December 2018: 4.4% – 14.0%) and were repayable on demand as of 31 December 2019. The short-term borrowings were primarily used to finance short-term cash flows for the operations of the Group. Approximately HK$52.5 million and HK$348.4 million of the bank loans were denominated in Renminbi and US dollar as at 31 December 2019 (31 December 2018: approximately HK$83.7 million and nil). As for the other loans, approximately HK$8.7 million, HK$24.0 million and HK$53.4 million were denominated in US dollar, Hong Kong dollar and Renminbi respectively as at 31 December 2019 (31 December 2018: approximately HK$34.5 million, HK$10.7 million and HK$4.4 million respectively).

As at 31 December 2019, the Group had convertible bonds of approximately HK$392.8 million (31 December 2018: HK$387.7 million) in which approximately HK$300.0 million (31 December 2018: HK$58.3 million) was classified under current liabilities and approximately HK$92.8 million (31 December 2018: HK$329.4 million) was classified under non-current liabilities. During the Year, all of the HK$61 million 0% coupon bond due 2019 was converted into 69,004,524 shares on 27 May 2019. In addition, HK$300.0 million 6% coupon bond due 2019 (the "CB2") in which the Company exercised its right to extend the maturity date to 9 June 2020 during the Year was reclassified from non-current liabilities to current liabilities. As such, convertible bonds classified under current liabilities as at 31 December 2019 increased to approximately HK$300.0 million (31 December 2018: HK$58.3 million).

Turnover Days, Liquidity Ratios and Gearing Ratios

Credit terms, normally not more than 90 days from the date of billing, are granted to customers, depending on their credit worthiness and business relationships with the Group. Trade receivable turnover days (trade receivable over revenue excluding finance lease of motor vehicles and equipment segment) for the Year was approximately 83 days (31 December 2018: 154 days). Trade payable turnover days and inventory turnover days for the Year were approximately 176 days and 63 days respectively (31 December 2018: 149 days and 115 days respectively). The change in turnover days of trade receivables, trade payables and inventory was primarily due to the consolidation of results of the Wireless Business Group into the consolidated financial statement of the Company since February 2019.

The current ratio and quick ratio as at 31 December 2019 decreased to approximately 0.48 (31 December 2018: 1.26) and 0.39 (31 December 2018: 1.06) respectively. Such decrease was primarily due to reclassification of Convertible Bond from non-current liabilities to current liabilities during the Year. Gearing ratio which was derived from total of debts (i.e. total of borrowings and convertible bonds) to total equity and total of debts was approximately 0.59 (31 December 2018: 0.55).

MANAGEMENT DISCUSSION AND ANALYSIS

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

Treasury Policy

The Group intends to principally finance its operations and investing activities, with among others, 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, Korean Won, Euro and US dollar. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimise exposure to foreign exchange risks. As at 31 December 2019, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes (31 December 2018: nil).

CHARGE OF ASSETS

As at 31 December 2019, bills payables were pledged with bank deposits and bills receivables amounting to approximately HK$3.9 million and HK$4.3 million respectively (31 December 2018: approximately HK$4.0 million and HK$8.2 million respectively). In addition, all shares of the Wireless Business Group were pledged for the banking facilities of US$38.5 million (31 December 2018: nil). Save as disclosed herein, the Group had no pledge of assets as at 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (31 December 2018: nil).

SIGNIFICANT INVESTMENT

Save as for the Group's acquisition of subsidiaries disclosed in note 42 of this report, there was no significant investment during the Year.

IMPORTANT TRANSACTIONS DURING THE YEAR

Material Acquisitions And Disposals

Acquisition of the entire issued share capital of Titan Automotive Solutions N.V. (previously known as Telit Automotive Solutions NV)

References are made to the announcements of the Company dated 12 July 2018, 31 October 2018, 11 December 2018, 29 January 2019, 1 February 2019, 20 February 2019 and 27 February 2019 and the circular of the Company dated 26 December 2018 in relation to, among others, the acquisition of Titan Automotive Solutions N.V. (the "Titan Acquisition").

IMPORTANT TRANSACTIONS DURING THE YEAR *(CONTINUED)*

Material Acquisitions And Disposals *(Continued)*

Acquisition of the entire issued share capital of Titan Automotive Solutions N.V. (previously known as Telit Automotive Solutions NV) (Continued)

On 12 July 2018, the Company entered into an acquisition agreement to buy all the issued shares of Titan Automotive Solutions N.V. at the aggregate consideration of US$105.0 million (equivalent to approximately HK$824.25 million), (subject to adjustments with reference to the aggregate cash, debt and working capital of Titan Automotive Solutions N.V. at completion ("Completion")) and the relevant transfer costs. The consideration was settled by the Company in cash upon Completion and was funded by equity and debt financing by issuing approximately 626.4 million new shares of the Company and the 0% coupon convertible bonds due 2025 in the aggregate principal amount of approximately HK$89.9 million and obtaining bank borrowings in the principal amount of US$38.5 million. The Titan Acquisition constituted a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Completion took place on 27 February 2019, upon which Titan Automotive Solutions N.V. became a wholly-owned subsidiary of the Company.

The Directors believe the Titan Acquisition is beneficial to the Group, creating synergy in terms of customer relationships, complementary technologies and research and development capabilities.

Suzhou Yadu Disposal

On 12 April 2019, the Group entered into a disposal agreement to dispose 51% of the equity interest of Suzhou Yadu at the consideration of RMB40.8 million (equivalent to approximately HK$46.1 million).

Suzhou Qiyixin was held as to approximately 27.2% by Tus-Technology City Group Co., Ltd.*（啟迪科技城集團有限公司）("Tus Technology City"), 4.9% by each of Suzhou Ziguang Innovative Education Development Co., Ltd.*（蘇州紫光創新教育發展有限公司）("Suzhou Ziguang") and 21.3% by Madam Mi Ying, the spouse of Mr. Ma Chi Kwong Karl, the Chairman of the Board and an executive Director.

Tuspark Venture is a substantial shareholder of the Company holding 452,519,805 Shares (representing approximately 21.93% of the total issued share capital of the Company) and is a wholly-owned subsidiary of Tus-Holdings. Tus Technology City and Suzhou Ziguang, each being a subsidiary of Tus-Holdings, together hold approximately 32.1% of the Vendor. Accordingly, Suzhou Qiyixin is an associate of Tuspark Venture and Tus-Holdings, and is a connected person of the Company under Chapter 14A of the Listing Rules, and the transaction contemplated under the Disposal Agreement constituted a connected transaction of the Company and was subject to the reporting, announcement, circular, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Save for the Titan Acquisition and the Suzhou Yadu Disposal, the Group did not have any material acquisitions or disposals during the Year.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

CONNECTED TRANSACTIONS

Save for the Tuspark Subscription as set forth in the section headed "Use of Proceeds" and the Suzhou Yadu Disposal as set forth in the section headed "Material Acquisitions and Disposals", the Group had no connected transactions that needed to be disclosed in compliance with the requirements under Chapter 14A of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 coronavirus in January 2020 has disrupted the supply chains of the global auto industry which decreased the passenger vehicle sales in China by 92% in the first half of 2020. The slowdown in auto industry has been affecting the ADAS and autonomous driving industry in the first half of 2020. Together with the travel restrictions in the PRC, Hong Kong and Europe which affected consumer sentiment in auto industry since February 2020, the above events may have significant impact on the Group's operations and financial results in the first half of 2020.

Save as disclosed herein, no subsequent events occurred after 31 December 2019 and up to the date of this report, which may have a significant effect on the assets and liabilities or future operations of the Group.

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the PRC, the US, Europe, and Asia Pacific with approximately 41.0% (2018: 100%) of the revenue denominated in Renminbi while approximately 59.0% (2018: nil) of the revenue denominated in Korean Won, Euro and US dollar. During the Year, the Group did not carry out any hedging activity against foreign currency risk (2018: nil). Any substantial exchange rate fluctuation of foreign currencies against Renminbi, Korean Won, Euro and US dollar may have a financial impact on the Group's operations in the PRC and Europe.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group employed 601 staff in the PRC, the US, Europe, Asia Pacific and Hong Kong (31 December 2018: 424). Remuneration of employees including Directors' emoluments was approximately HK$65.9 million for the Year (2018: HK$40.4 million).

The Group reviews employee remuneration from time to time and salary increment is normally approved annually or by special adjustment depending on length of services and performance of the employees when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Board and depending upon the performance of the Group. During the Year, the Group did not adopt any long-term incentive schemes.

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 stipulated rate of the eligible employees' salaries.

RETIREMENT SCHEMES *(CONTINUED)*

In Europe and other countries where the Group operates, the Group also participates in social security schemes, net defined benefits plan or other equivalent pension plans organised by the relevant local government authorities for eligible employees, under which the Group makes contributions in an amount equivalent to a specified percentage of employee's monthly salaries.

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Market Risk

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

Foreign Exchange Rate Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2019, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

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

Equity Price risk

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

Liquidity Risk

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

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES *(CONTINUED)*

Operational Risk

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

Investment Risk

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

Economic Environment

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

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

RELATIONSHIPS WITH STAKEHOLDERS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ma Chi Kong Karl, aged 49, has been appointed as the chairman of the Company and an executive Director since 15 July 2016. Mr. Ma graduated from University of Michigan with a Bachelor degree in Business Administration, and from London Business School of the University of London with a Master degree in Finance. He obtained the professional qualifications of the Chartered Financial Analyst and is a member of Hong Kong Society of Financial Analysts.

Mr. Ma has been engaged in the investment and financing, fund management and other works in many international investment banks including Credit Suisse. He has more than 20 years of experience in financial business and investment. He also has extensive government relations and business networks all over the mainland China, Hong Kong, Macao and overseas. Currently, Mr. Ma acts as the Co-chairman of the board of directors of China Private Ventures Limited, the director of Tus-Holdings Co., Ltd., the Chairman of Tus Financial Company Limited, the director of Luso International Banking Ltd. and a member of Beijing Committee of The Chinese People's Political Consultative Conference. Tus-Holdings Co., Ltd. is the holding company of Tuspark Venture Investment Ltd., a substantial shareholder holding approximately 21.93% of the issued share capital of the Company as at the date of this report.

Mr. Du Peng, aged 44, has been appointed as an executive Director and vice chairman of the Company since 12 June 2015 and 12 February 2018. He is also a director of certain subsidiaries of the Group. Mr. Du graduated from Tsinghua University with a Bachelor degree in Engineering from School of Material Science and a Master degree in Management from School of Public Management.

Mr. Du joined Tus-Holdings Co., Ltd. (previously named as Tsinghua University Science Park Development Centre) from 2002, and is currently the vice president of Tus-Holdings Co., Ltd. He is also the director of Tuspark Venture Investment Ltd which holds approximately 21.93% of the issued share capital of the Company as at the date of this report. Mr. Du is the chairman of Beijing Tus Street Assets Management Co., Ltd. and the managing director of Tus Financial Company Limited (both companies are subsidiaries of Tus-Holdings Co., Ltd.). Mr. Du's public service positions include the vice chairman of the 29th and 30th council of Tsinghua Alumni Association of Hong Kong, the vice chairman of Zhongguancun Listed Companies Association, the executive vice chairman of Zhongguancun Committee of Industrial Alliance, council member of China Council for International Investment Promotion – Investment and Financing Committee and chief supervisory of Z-Park Association of Internet Finance.

Mr. Lin Jian, aged 59, has been appointed as an executive director since 1 April 2020. He holds a Bachelor Degree in Economic Industry of Hebei University. Mr. Lin is also a director of certain subsidiaries of the Group. Mr. Lin joined the Group in December 2019 as the member of the Board of Directors of Titan Automotive Solutions NV ("Titan"), a wholly owned subsidiary of the Company. He is responsible for monitoring and facilitating the operation and business development of Titan.

Before joining the Group, Mr. Lin has extensive experience in fund investment and business development, especially in the regional market of Southeast Asia, North America and Europe. He joined Tus-Holdings Co., Ltd. in February 2005 and has been working in the field of incubation and acceleration for smaller pioneer companies for over a decade. Mr. Lin is currently the director of International Cooperation in Tus-Holding Co., Ltd. He also acted as the Managing Director and CEO of Tus Europe S.R.L. dealing with business investment in Europe. Tus-Holdings Co., Ltd. is the holding company of Tuspark Venture Investment Ltd., a substantial shareholder holding approximately 21.93% of the issued share capital of the Company as at the date of this report.

Mr. Shen Xiao, aged 41, has been appointed as the president of the Company and an executive Director since 21 June 2016. On 9 July 2019, Mr. Shen has retired as the president of the Company but he remains as an executive director of the Company. He is also a director of certain subsidiaries of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Shen holds a Master degree and a Bachelor degree in Management (Accounting) from Tsinghua University. Before joining the Group, Mr. Shen had 15 years of working experience in investment banking business with BOC International Holdings Limited, Credit Lyonnais Securities Asia Limited (CLSA) and J.P. Morgan Securities (Far East) Limited, and was responsible for corporate finance activities and cross-border merger and acquisitions for companies in the PRC. Mr. Shen is the Senior Vice President of Tus-Holdings Co., Ltd. Tus-Holdings Co., Ltd. is the holding company of Tuspark Venture Investment Ltd., a substantial shareholder holding approximately 21.93% of the issued share capital of the Company as at the date of this report. Mr. Shen was an independent non-executive director of Ascent International Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 264) from 18 October 2017 to 25 July 2018.

NON-EXECUTIVE DIRECTORS

Mr. Tsang Ling Biu, Gilbert, aged 49, has been appointed as a non-executive Director since 15 May 2015. Mr. Tsang holds a Master degree in Commerce (with Professional Accounting and Finance) and a Bachelor degree in Science (with Information Systems) from University of New South Wales in Australia, and is also the fellow member of CPA Australia.

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

Mr. Hu Bo, aged 45, has been appointed as a non-executive Director of the Company since 29 April 2019. Mr. Hu holds a bachelor degree in Nuclear Energy and New Energy Application from Tsinghua University and a master degree in Business Administration from Tsinghua University School of Economics and Management. Currently, Mr. Hu acts as the vice president of Tus-Holdings Co., Ltd., executive director of Tus-Europe, president of TusPark (Jiangsu) Development Co., Ltd. He has rich experience in working and management in the industry operation, park management, financial investment and other fields. Tus-Holdings Co., Ltd. is the holding company of Tuspark Venture Investment Ltd., a substantial shareholder holding approximately 21.93% of the issued share capital of the Company as at the date of this report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hon. Quat Elizabeth *(JP)*, aged 53, has been appointed as an independent non-executive Director since 6 January 2017.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. Poon Chiu Kwok, aged 57, has been appointed as an independent non-executive Director since 1 September 2015. Mr. Poon was awarded the postgraduate diploma in laws by the University of London. He holds a Bachelor degree in Laws and a Bachelor degree in Business Studies and a Master degree in International Accounting. He is a fellow member of CPA Australia Limited, the Hong Kong Securities and Investment Institute, The Chartered Governance Institute (formerly know as The Institute of Chartered Secretaries and Administrators), and The Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel, Mainland China Focus Group and Audit Committee.

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

Mr. Wong Yuk Lun, Alan, aged 45, has been appointed as an independent non-executive Director since 2 September 2014. Mr. Wong holds a Bachelor's degree in Accounting and Finance from University of Sunderland. Mr. Wong had been working with various accounting firms and commercial companies and has over 20 years' experience in merger and acquisitions, financial management, taxation, audit and non-audit services.

Mr. Wong is currently an independent non-executive director of Huisheng International Holdings Limited (stock code: 1340), the shares of which are listed on the Main Board of the Stock Exchange; and Deson Construction International Holdings Limited (stock code: 8268), the shares of which are listed on the GEM of the Stock Exchange; Mr. Wong has also been appointed as an independent non-executive director of Temir Group (stock code: TMRR) since 15 July 2019, the issued shares of which are traded on the OTC Securities Marketplace in the United States of America. Mr. Wong was an independent non-executive director of Bolina Holding Co., Ltd. (stock code: 1190) from 7 July 2016 to 27 March 2017 and Tech Pro Technology Development Limited (stock code: 3823) from 24 May 2019 to 2 March 2020, the issued shares of both companies are listed on the Main Board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Deng Bo is the managing director of Suzhou Zhihua. Mr. Deng holds a Bachelor degree in Automobile Engineering from Tsinghua University, and has over 13 years experiences in the field of automobile including R&D and management. He was the engineer and department head of the Changan Automobile Engineering Research Centre (Electronic Fitting Design Section) and Changan New Energy Vehicle Co. under Changan Automobile (Group) Co. Ltd. He was also the technical director of Smart Vehicle and Control Research Team of the Automobile Engineering Department of Tsinghua University. Mr. Deng then founded Suzhou Zhihua and rapidly expanded the ADAS business of the latter.

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

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

Mr. Wen Xu is the chief engineer of Suzhou Zihua. Mr. Wen holds a Master degree in Mechanical Engineering from University of Stuttgart and Bachelor degree in Precision Instrument from Tsinghua University, and has over 15 years of experience in the field of automotive parts development. He was awarded the title of leading talent in Suzhou-WuJiang. Mr. Wen was with HiRain Technologies and specialised in developing the ADAS software and algorithms. Mr. Wen led his team to finish development of the first ever 3D parking assistant system in China on various Nissan models during 2013-2014. He and his team then developed the 3D parking assistant system on SAIC-GM-Wuling models in 2016.

Mr. Yang Bo is the deputy general manager of Suzhou Zhihua. Mr. Yang holds a Master degree in Automotive Engineering from Tsinghua University, and has 11 years of experience in the field of automotive parts development, specialising in the Forward ADAS systems. Mr. Yang was with HiRain Technologies and specialised in developing the ADAS software and algorithms. Mr. Yang accomplished the Changan Auto project with his team in development of Lane Departure Warning in 2014. He set the products benchmark with the well-known Delphi and mobileye, and taking the technology in the leading domestic level.

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

Mr. Zhao Xiaoyu is the vice general manager of TUS Cloud Control. Mr. Zhao holds a Master degree in Computer Science and Technology from Beijing University of Posts and Telecommunications, and has 17 years experiences in telecommunication, internet related hardware and software design and development and management. He was engaged by the Telecommunication Center of Beijing University of Posts and Telecommunications, the China Education and Research Network (North China), the Beijing Research Center of France Télécom, Fluke Network and Sony Mobile, and responsible for scientific research, project management and department management.

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

REPORT OF THE DIRECTORS

The Directors hereby present their report together with the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group is principally engaged in production and sale of ADAS and other automotive components and provision of financing service for leasing motor vehicles and equipment. The principal activities and other particulars of its subsidiaries are set out in note 23 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group and an analysis of the Group's performance using financial key performance indicators during the year are provided in the Chairman's Statement and Management Discussion And Analysis on pages 3 to 24 of this report. In addition, discussions on the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the Environmental, Social and Governance Reports disclosed on pages 56 to 75.

The principal risks and uncertainties facing the Group are disclosed in Management Discussion And Analysis under section headed "Principal Risks and Uncertainties" on pages 23 to 24 on this report. Details of the Group's compliance with relevant laws and regulations are set out in Management Discussion and Analysis under the section headed Compliance with Relevant Laws and Regulations. Particulars of important events affecting the reporting entity that have occurred since the end of the Year are disclosed in Management Discussion and Analysis under section headed "Events After the reporting period" on page 22 of this report. An indication of likely future development of the Group is disclosed in Management Discussion And Analysis under section headed "Future Plans and Prospects" on page 9 of this report.

RESULTS

The loss of the Group for the year ended 31 December 2019 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 82 to 85 and pages 201 to 202.

FINAL DIVIDENDS

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2019 and the published combined financial information of the Group for the four years ended 31 December 2015, 2016, 2017 and 2018 as extracted from the audited financial statements and restated as appropriate, is set out on page 206. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

ISSUE OF SHARES

During the year ended 31 December 2019, a total of 740,430,395 Shares were issued, for which (i) 671,425,871 Shares were allotted and issued to certain subscribers at the subscription price of HK$0.6084 per Share on 27 February 2019 and (ii) 69,004,524 Shares were allotted and issued at the conversion price of HK$0.884 per Share upon conversion of certain 0% convertible bonds in the aggregate principal amount of HK$61,000,000 on 24 May 2019. Details of the issue of Shares are set out in Management Discussion and Analysis under the sections headed "Use of Proceeds" and "Connected Transactions" and note 40 to the consolidated financial statements.

FIXED ASSETS

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

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 40 to the consolidated financial statements and consolidated statement of changes in equity, respectively.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 40 to the consolidated financial statements.

There were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

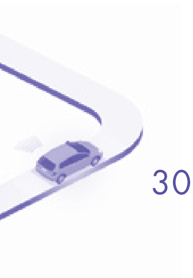
There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles of Association") although there are no restrictions against such rights under the law in the Cayman Islands.

BANK LOANS AND OTHER LOANS

Particulars of bank loans and other loans as at 31 December 2019 are set out in note 36 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders of their holding of such securities.



MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total			
	Sales		Purchases	
	2019	2018	**2019**	2018
The largest customer	**20%**	34%		
Five largest customers in aggregate	**60%**	72%		
The largest supplier			**61%**	31%
Five largest suppliers in aggregate			**83%**	52%

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

DIRECTORS

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

Executive Directors

Mr. Ma Chi Kong Karl *(Chairman)*
Mr. Du Peng
Mr. Shen Xiao
Mr. Lin Jian (appointed with effect from 1 April 2020)

Non-executive Directors

Mr. Tsang Ling Biu, Gilbert
Mr. Hu Bo (appointed on 29 April 2019)
Mr. Qin Zhiguang (resigned with effect from 1 April 2020)

Independent non-executive Directors

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

According to article 87(1) of the articles of association of the Company (the "Articles"), not less than one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Du Peng and Mr. Shen Xiao, being executive Directors, Mr. Wong Yuk Lun, Alan, being an independent non-executive Director, will retire as Directors and, Mr. Du Peng, Mr. Shen Xiao and Mr. Wong Yuk Lun, Alan, being eligible, will offer themselves for re-election as Directors at the forthcoming annual general meeting.

Pursuant to Article 86(3) of the Articles, any Director appointed as an addition to the Board shall hold office only until the following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Mr. Lin Jian was appointed by the Board as executive Director with effect from 1 April 2020. Accordingly, Mr. Lin shall retire from office as a Director at the annual general meeting and he, being eligible, offers himself for re-election in the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 25 to 28 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company. All annual remuneration packages of the Directors were determined on arm's length negotiations between the parties based on their respective contributions to and responsibilities in the Company. The service contracts do not specify length of service and can be terminated by either party by giving three months' notice to the other party.

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

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

DIRECTORS' REMUNERATION

The Shareholders have authorised the Board to fix the Directors' fees in the annual general meeting. The Directors' fees and emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance, the results of the Group and with reference to the suggestions of the Remuneration Committee.

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

As at 31 December 2019, the interests and short positions of the Directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of director	Capacity	Number of ordinary shares held	Underlying interest	Total	Approximate percentage of shareholding (note 5)
Ma Chi Kong Karl	Beneficial Owner	210,718,000	109,280,000 (note 1)	319,998,000	15.51%
Du Peng	Beneficial Owner	–	13,920,000 (note 2)	13,920,000	0.67%
Shen Xiao	Beneficial Owner	50,000,000	123,773,894 (note 3)	173,773,894	8.42%
Tsang Ling Biu, Gilbert	Beneficial Owner	–	4,640,000 (note 4)	4,640,000	0.22%

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

Note:

1. These underlying interests represent 9,280,000 shares options granted to Mr. Ma Chi Kong Karl pursuant to the 2009 Share Option Scheme, and also his interest in the long position of 100,000,000 shares underlying the 0% coupon convertible bond due 2023 issued by the Company on 21 June 2018.

2. These underlying interests represent 13,920,000 shares options granted to Mr. Du Peng pursuant to the 2009 Share Option Scheme.

3. These underlying interests represent 13,920,000 shares options granted to Mr. Shen Xiao pursuant to the 2009 Share Option Scheme, and also his interest in the long position of 109,853,894 shares underlying the 6% coupon convertible bond due 2020 issued by the Company on 9 June 2017.

4. These underlying interests represent 4,640,000 shares options granted to Mr. Tsang Ling Biu, Gilbert pursuant to the 2009 Share Option Scheme.

5. This represents the approximate percentage of the aggregate long positions in shares of the Company to the total issued shares of the Company as at 31 December 2019.

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

SHARE OPTION SCHEMES

The Company adopted a share option scheme for the issuance of in aggregate no more than 10% in the nominal amount of the aggregate of shares in issue on 19 June 2009 ("2009 Share Option Scheme"). Following the refreshment of the scheme mandate limit as approved by shareholders at the general meeting on 5 June 2017, the total number of shares which may be allotted and issued upon exercise of all options to be granted under the 2009 Share Option Scheme was refreshed up to 10% of the number of shares in issue as at 5 June 2017, i.e. 92,818,488 shares. A summary of principal terms of the 2009 Share Option Scheme was disclosed in the circular of the Company issued on 29 April 2009. The 2009 Share Option Scheme remained in force for ten years from the date of its adoption and expired on 18 June 2019. A new share option scheme (the "2019 Share Option Scheme") was adopted by the Company at the annual general meeting on 21 May 2019 and the total number of shares which may be allotted and issued upon exercise of all options to be granted under the 2019 Share Option Scheme was up to 10% of the number of shares in issue as at 21 May 2019, i.e. 199,461,075. Subject to the aforementioned 10% threshold, the overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2019 Share Option Scheme and any other share option scheme(s) of the Group (including the 2009 Share Option Scheme) must not exceed 30% of the shares in issue from time to time.

The total number of securities available for issue under the 2019 Share Option Scheme as at 31 December 2019 was 199,461,075 shares which represented approximately 9.67% of the issued share capital of the Company as at 31 December 2019 and as at the date of the annual report.

Eligible participants of the 2019 Share Option Scheme would be any person or entity belonging to any of Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The period within which the Shares must be taken up under the option and the minimum period, if any, for which an option must be held before it can be exercised, will be determined by the Board, if necessary, when the Board grants the option under the 2019 Share Option Scheme.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES *(CONTINUED)*

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

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

The 2019 Share Option Scheme was effective on 21 May 2019 and unless otherwise cancelled or amended, will remain valid and effective for the period of 10 years from that date (i.e. 20 May 2029).

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

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

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

(3) the nominal value of the shares.

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

Name	Date of grant	Exercise period	As at 1 January 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 31 December 2019	Exercise price per share
Existing Directors									
Ma Chi Kong Karl	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	–	–	–	–	9,280,000	0.822
Du Peng	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	–	–	–	–	9,280,000	0.820
	18 April 2018	18 April 2019 – 17 April 2028	4,640,000	–	–	–	–	4,640,000	0.620
Shen Xiao	12 October 2016	12 October 2017 – 11 October 2026	9,280,000	–	–	–	–	9,280,000	0.822
	18 April 2018	18 April 2019 – 17 April 2028	4,640,000	–	–	–	–	4,640,000	0.620
Tsang Ling Biu, Gilbert	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	–	–	–	–	4,640,000	0.820
Other eligible participants									
Employees	22 January 2016	22 January 2017 – 21 January 2026	1,400,000	–	–	–	(800,000)	600,000	0.820
	31 March 2017	31 March 2018 – 30 March 2027	1,000,000	–	–	–	(1,000,000)	–	0.720
	18 April 2018	18 April 2019 – 17 April 2028	1,000,000	–	–	–	–	1,000,000	0.620
Others	22 January 2016	22 January 2017 – 21 January 2026	9,280,000	–	–	–	(9,280,000)	–	0.820
	22 January 2016	22 January 2017 – 21 January 2026	4,640,000	–	–	–	(4,640,000)	–	0.820
			59,080,000	–	–	–	(15,720,000)	43,360,000	

SHARE OPTION SCHEMES *(CONTINUED)*

The 2009 Share Option Scheme had a term of 10 years and was expired on 19 June 2019. In view of the expiry of the 2009 Share Option Scheme, the Board recommended to the Shareholders to approve the adoption of the New Share Option Scheme in the annual general meeting held on 21 May 2019. The 2019 Share Option Scheme became effective after all the conditions precedent have been fulfilled on 21 May 2019.

As at 31 December 2019, there were 43,360,000 outstanding options under the 2009 Share Option Scheme. The expiry of the 2009 Share Option Scheme was not in any event affected the terms of the grant of the options that have already been granted thereunder and the abovementioned outstanding options continue to be subject to the provisions of the 2009 Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2019, the following persons (other than the Directors and chief executives of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Name of shareholder	Notes	Capacity	Number of ordinary shares of the Company held (Note 1)		Approximately percentage of total shares of the Company (Note 2)
Tuspark Venture Investment Ltd. ("Tuspark Venture")	3	Beneficial interest	710,109,564	(L)	34.41%
Tus-Holdings Co., Ltd. ("Tus-Holdings")	3	Interests of controlled corporation	710,109,564	(L)	34.41%
Beijing Baijun Investment Company Limited ("Beijing Baijun")	4	Interests of controlled corporation	710,109,564	(L)	34.41%
Wang Jiwu	4	Interests of controlled corporation	710,109,564	(L)	34.41%
Tsinghua Holdings Co., Ltd. ("Tsinghua Holdings")	4	Interests of controlled corporation	710,109,564	(L)	34.41%
Tsinghua University	4	Interests of controlled corporation	710,109,564	(L)	34.41%
E-Town International Holding (Hong Kong) Co., Limited ("E-Town HK")	5	Beneficial interest	387,080,868	(L)	18.76%
北京亦莊國際投資發展有限公司 ("E-Town BJ")	5	Interests of controlled corporation	387,080,868	(L)	18.76%
CM Securities Investment Limited ("CMSI")	6	Beneficial owner	109,853,894	(L)	5.32%
CM Securities (Hong Kong) Company Limited ("CMSHK")	6	Interests of controlled corporation	109,853,894	(L)	5.32%
CM Securities Holdings Limited ("CMSH")	6	Interests of controlled corporation	109,853,894	(L)	5.32%
China Minsheng Financial Holding Corporation Limited ("CMFHCL")	6	Interests of controlled corporation	109,853,894	(L)	5.32%
CMI Financial Holding Company Limited ("CMIFH")	6	Interests of controlled corporation	109,853,894	(L)	5.32%
Minsheng (Shanghai) Assets Management Company Limited ("MSAM")	6	Interests of controlled corporation	109,853,894	(L)	5.32%
China Minsheng Investment Corporation Limited ("CMIC")	6	Interests of controlled corporation	109,853,894	(L)	5.32%
Munsun Smart Mobility Fund LP ("Munsun Smart")	7	Interests of controlled corporation	109,853,894	(L)	5.32%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES *(CONTINUED)*

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Based on 2,063,615,283 Shares in issue as at the 31 December 2019.

(3) Tuspark Venture was the beneficial owner of 452,519,805 Shares. Tuspark Venture was also beneficially interested in the 6% Convertible Bond due 2020 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)) and in the 0% Convertible Bond due 2025 in the principal amount of HK$89,882,500 which was convertible into 147,735,865 Shares at the conversion price of HK$0.6084 per Share (subject to adjustment(s)). The entire issued share capital of Tuspark Venture was beneficially owned by Tus-Holdings. Tus-Holdings was therefore deemed to be interested in the 710,109,564 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) E-Town HK was the beneficial owner of 387,080,868 Shares. E-Town HK was wholly-owned by E-Town BJ. E-Town BJ was therefore deemed to be interested in the 387,080,868 Shares held by E-Town HK pursuant to the SFO.

(6) CMSI was beneficially interested in the 6% Convertible Bond due 2020 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 CMSHK which in turn beneficially owned by CMSH which in turn beneficially owned by CMFHCL.

CMFHCL was held as to 49.84% by CMIFH which was wholly owned by MSAM which was in turn wholly owned by CMIC.

(7) Munsun Smart was beneficially interested in the 6% Convertible Bond due 2020 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)).

Short Positions in Shares of the Company

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

Save as disclosed above, as at 31 December 2019, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PERMITTED INDEMNITY OF DIRECTORS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, which were not contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

CONTRACTS OF SIGNIFICANCE AND DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2019, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director or an entity connected with a Director had material interest, whether directly or indirectly, subsisted at the end of the period or any time during the year ended 31 December 2019.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REPORT OF THE DIRECTORS

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

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

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes to information of Directors subsequent to the date of the annual report of the Company for the year ended 31 December 2019 are set out below:

Mr. Du Peng had resigned as the independent director of Beijing Kingtop Technology Company Limited (a listed company in Over the Counter Bulletin Board with stock code of 430064.NEEQ) on 23 April 2020.

Mr. Wong Yuk Lun, Alan had resigned as independent non-executive director of Tech Pro Technology Development Limited (HKEx stock Code: 3823) on 2 March 2020 and Mr. Wong has been appointed as an independent non-executive director of Temir Group (stock code: TMRR) since 15 July 2019, the issued shares of which are traded on the OTC Securities Marketplace in the United States of America.

AUDITORS

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

On behalf of the Board

Ma Chi Kong Karl
Chairman

Hong Kong, 25 May 2020

CORPORATE GOVERNANCE CODE

Saved as mentioned below, the Company has complied with all of the code provisions and the revised code provision on risk management of the Corporate Governance Code and the Corporate Governance Report (the "CG Code") set out in the Appendix 14 to the Listing Rules, during the year ended 31 December 2019.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of both the chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Ma Chi Kong Karl has been appointed as the chairman of the Company (the "Chairman") on 15 July 2016, while the role of the chief executive officer has been performed collectively by all executive Directors. The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interests of the shareholders of the Company as a whole.

Under code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Tsang Ling Biu Gilbert and Mr. Qin Zhiguang, being the non-executive directors; Hon. Quat Elizabeth and Mr. Wong Yuk Lun Alan, being the independent non-executive directors, did not attend the Company's extraordinary general meeting held on 29 January 2019 due to their prior engagement.

Under code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Ma Chi Kong Karl, being the chairman of the board, did not attend the annual general meeting of the Company held on 21 May 2019 due to engagement in other business.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year under review, the Company has adopted the model code set out in the Appendix 10 of the Listing Rules for securities transactions by Directors. The Company, having made specific enquiry of all Directors, confirmed that they have complied with the required standard set out in the adopted code regarding their securities transactions during 2019.

BOARD OF DIRECTORS

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

As at the publication of this report, the Board comprises 9 Directors, including 4 executive Directors, 2 non-executive Directors and 3 independent non-executive Directors, in compliance with the requirement of Listing Rules which states that "every board of directors of an issuer must include at least 3 independent non-executive directors which represent at least one-third of the board". There is no relationship (including financial, business, family or other material/relevant relationship) between any of the Directors. Details of the biographies of individual Directors and their range of specialist experience and expertise are set out on pages 25 to 27 of this report.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

The primary functions of the Board include:

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

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

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

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

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

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

Experience

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

Appointment, Re-election and Removal of Directors

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

BOARD OF DIRECTORS *(CONTINUED)*

Non-Executive Directors

The Company has complied with the requirement to appoint a sufficient number of independent non-executive Directors as set out in Rule 3.10(1) of the Listing Rules. Throughout the year ended 31 December 2019 and up to the publication of this report, the Company has three independent non-executive Directors, namely Hon. Elizabeth Quat *(JP)*, Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan.

Mr. Tsang Ling Biu, Gilbert, Mr. Hu Bo (appointed with effect from 29 April 2019) and Mr. Qin Zhiguang (resigned with effect from 1 April 2020), being the non-executive Directors and Hon. Elizabeth Quat *(JP)*, Mr. Poon Chiu Kwok and Mr. Wong Yuk Lun, Alan, being the independent non-executive Directors, are all appointed for a fixed term of three years. All the non-executive Directors and independent non-executive Directors are subject to normal retirement and reelection by shareholders of the Company pursuant to the Articles of Association of the Company at the annual general meeting of the Company.

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

Directors' and Officers' Insurance

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

Board Diversity

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Board Diversity *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BOARD OF DIRECTORS *(CONTINUED)*

Attendance of Meeting(s)

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

Members of the Board, who are well-informed of their duties and responsibilities, held a total of 13 meetings in 2019. The Directors are given sufficient time to review documents and information relating to matters to be discussed in board meetings in advance.

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(CONTINUED)*

Attendance of Meeting(s) *(Continued)*

Details of Directors' attendance at board meetings, committee meetings and general meetings held in 2019 are set out as follows:

	General Meetings	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Ma Chi Kong Karl *(Chairman)* (note 1)	1/4	9/13	N/A	2/2	2/2
Mr. Du Peng	3/4	10/13	N/A	N/A	N/A
Mr. Shen Xiao	4/4	13/13	N/A	N/A	2/2
Mr. Lin Jian (note 2)	N/A	N/A	N/A	N/A	N/A
Non-executive Directors					
Mr. Tsang Ling Biu, Gilbert (note 3)	3/4	12/13	3/3	N/A	N/A
Mr. Qin Zhiguang (resigned on 1 April 2020) (note 3)	3/4	10/13	N/A	N/A	N/A
Mr. Hu Bo (appointed on 29 April 2019) (note 4)	2/2	3/4	N/A	N/A	N/A
Independent non-executive Directors					
Hon. Quat Elizabeth *(JP)* (note 3)	3/4	10/13	3/3	2/2	2/2
Mr. Poon Chiu Kwok	4/4	13/13	3/3	2/2	2/2
Mr. Wong Yuk Lun, Alan (note 3)	3/4	10/13	3/3	2/2	2/2

Note

1. Mr. Ma Chi Kong Karl did not attend the annual general meeting held on 21 June 2019 and extraordinary general meetings held on 29 January 2019 and 26 June 2019 respectively due to his prior engagement.

2. Mr. Lin Jian was appointed on 1 April 2020. Therefore, he did not attend any general meetings and board meetings.

3. Mr. Tsang Ling Biu Gilbert, Mr. Qin Zhiguang, Hon Quat Elizabeth and Mr. Wong Yuk Lun Alan did not attend the extraordinary general meeting held on 29 January 2019 due to their prior engagements.

4. Mr. Hu Bo was appointed on 29 April 2019. Therefore, he was eligible to attend two general meetings and four board meetings.

BOARD OF DIRECTORS *(CONTINUED)*

Training, Induction and Continuing Development of Directors

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

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

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

	Category of continuous professional development
Executive Directors	
Mr. Ma Chi Kong Karl *(Chairman)*	B
Mr. Du Peng	B
Mr. Shen Xiao	B
Mr. Lin Jian (appointed on 1 April 2020)	N/A
Non-executive Directors	
Mr. Tsang Ling Biu, Gilbert	A, B
Mr. Hu Bo (appointed on 29 April 2019)	A, B
Mr. Qin Zhiguang (resigned on 1 April 2020)	A, B
Independent non-executive Directors	
Hon. Quat Elizabeth *(JP)*	A, B
Mr. Poon Chiu Kwok	A, B
Mr. Wong Yuk Lun, Alan	B

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

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

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

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

The Directors are responsible for overseeing the preparation of financial statements of each financial year. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently, approved adoption of all applicable Hong Kong Financial Reporting Standards in effect, made judgments and estimates that are appropriate, and prepared the financial statements on a going concern basis. The management is of the view that the Group will continue as a going concern.

The Group has announced in its annual and interim results in a timely manner within three months and two months after the end of the relevant period, as required under the Listing Rules; or such longer period as the Stock Exchange may approve.

MANAGEMENT FUNCTIONS

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

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

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

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

REMUNERATION COMMITTEE

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

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

The Remuneration Committee currently comprises an executive Director and three independent non-executive Directors:

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(CONTINUED)*

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

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

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

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

	Number of individuals
HK$ Nil – HK$1,000,000	8

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

NOMINATION COMMITTEE

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The company secretary of the Company is responsible for supporting the Board, ensuring good information flow within the Board and Board policies and procedures are followed, advising the Board on corporate governance matters, facilitating induction, and monitoring the training and continuous professional development of Directors. The former company secretary of the Company, Mr. Lee Chi Yung, whose employment was terminated on 31 March 2020, attained no less than 15 hours of relevant professional training during the Year. On 1 April 2020, Mr. Cheung Hing Lung Raphael was appointed as the acting company secretary of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

With the assistance of the finance department of the Company, the Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2019 and confirm that the financial statements contained herein give a true and fair view of the results and state of affairs of the Group for the year under review. The Directors consider that the financial statements have been prepared in conformity with the statutory requirements including the Hong Kong Companies Ordinances and the Listing Rules and the applicable accounting standards including the International Financial Reporting Standards and Hong Kong Financial Reporting Standards. These statutory requirements and applicable accounting standards have been consistently used and applied and reasonable judgements and estimates are properly made. The Board aims to present a clear and balanced assessments of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner.

Going Concern

The Group recorded a net loss of approximately HK$301.3 million for the Year (2018: HK$128.5 million) and net current liabilities of approximately HK$656.1 million as of 31 December 2019 (31 December 2018: net current assets of approximately HK$120.2 million) which may have a considerable impact on the liquidity position of the Group. Nevertheless, the management of the Company considers the liquidity position of the Group is sufficient to operate as a going concern in the foreseeable future as the Group maintains a healthy financial position as of 31 December 2019 with cash and cash equivalents and net assets value of approximately HK$117.3 million and HK$600.8 million respectively. In particular, the management of the Company has given consideration to the following steps taken which are expected to strengthen the Group's financial position:

1. the Company has actively negotiated with banks to secure the renewals of the Group's bank borrowings to meet it liabilities when fall due;

2. The Group is currently in discussion with a bank on a waiver and potential restricting of certain financial covenants under the loan agreement;

3. the Group has received a written confirmation dated 15 March 2020 from Tuspark Venture Investment Limited ("Tuspark Venture"), one of the major shareholders of the Company, that it will provide financial support to the Group in the following 24 months on a going concern basis. Such assistance to be received by the Group will not be secured by any assets of the Group.

   Subsequent to the above, Tuspark Venture received a written confirmation dated 20 May 2020 from Tus-Holdings Co., Ltd., its holding company, that it will provide financial support to the Tuspark Venture in the following 24 months;

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING *(CONTINUED)*

Going Concern *(Continued)*

4. As at the date of approval of these consolidated financial statements, the Group has signed an agreement to obtain a financing from a financial institution;

5. 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;

6. The Group may consider to dispose non-core business and/or financial assets if required; and

7. The Company has actively negotiated with investors for the extension of convertible bonds and obtaining further financing when necessary including but not limited to shareholder's loan, equity financing, bank borrowing and issuance of new convertible bonds to improve the liquidity of the Group.

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.

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

DIVIDEND POLICY

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

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

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

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS' REMUNERATION

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

Type of services provided	Amount of fees (HK$)
Audit services	1,200,000
Non-audit services	48,998
Total	1,248,998

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL *(CONTINUED)*

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

Communications with Shareholders and Investors

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

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

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

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

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

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

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

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

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

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

Constitutional Documents

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

Procedures for Shareholders to Convene an Extraordinary General Meeting and to put forward proposals at general meetings

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

Pursuant to Article 88 of the Company's Articles of Association, no person other than a Director retiring at the general meeting shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Company notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and notice in writing signed by the person to be proposed of his willingness to be elected. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules.

Enquiries to the Board

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

Room 707-711, 7/F,
TusPark Workhub,
118 Wai Yip Street,
Kwun Tong
Hong Kong
Email: info@tus-i.com

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

TUS INTERNATIONAL LIMITED

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT ("ESG REPORT")

FINANCIAL YEAR 2019

TUS International Limited ("TUS", the "Group" or "We") focuses on providing advanced driving assistance systems (ADAS) for China, Europe, the United States and the Asia-Pacific region, and is committed to providing solutions for city-level autonomous driving cloud control. In addition, the Group also provides financing service for leasing motor vehicles and equipment. This report will describe our environmental, social and governance ("ESG") management strategies and performance from 1 January 2019 to 31 December 2019 ("Financial Year 2019" or "Reporting Period"), showing our pursuit of sustainable development and the importance we have placed on it. This report is compiled in accordance with Appendix 27 of HKEx Main Board Listing Rules – Environmental, Social and Governance Reporting Guide ("ESG Guide"). The reporting scope of the report includes:

1) Office in Hong Kong headquarters
2) Companies engaged in ADAS lens business in Suzhou
3) Companies engaged in finance lease of motor vehicles and equipment business in Shanghai
4) Companies engaged in ADAS cloud control business in Beijing
5) Companies engaged in ADAS vehicle connectivity business in Belgium, Israel, France, Germany, South Korea and the United States

GOVERNANCE STRUCTURE AND RISK MANAGEMENT OF CORPORATE SOCIAL RESPONSIBILITY

The Group has established a corporate social responsibility governance structure divided into three main components, namely decision-making level, organization level and execution level, and is committed to meeting shareholders' expectations for ESG practices. Please refer to the following table for details of the structure:

Decision-making level	The Board of the Group participates in the deliberations and decisions covering major ESG issues, including the formulation of relevant strategies and guidelines, and special review of annual ESG reports.
Organization level	The Group has set up a special working group to coordinate daily ESG management, including implementing the Board's strategies and policies, preparing ESG reports, collecting and monitoring information and data related to daily corporate social responsibility.
Execution level	The functional departments and subsidiaries of the Group are responsible for the centralized management of various ESG issues, regularly submit relevant information and data, and implement various ESG-related activities.

Table 1 Corporate social responsibility governance structure of the Group

In order to more effectively strengthen and comprehensively implement sustainable development measures, the management assumes the highest regulatory responsibility in ESG. It is responsible for monitoring and performing risk assessments from the top level, as well as designing, implementing and maintaining internal control systems. Through regular communication with senior management of different departments, the management fully understands and identifies potential risks facing the Group in terms of ESG, and formulates relevant improvement measures in time to cope with the rapidly changing market environment. The Group has engaged independent consultants to regularly evaluate risk management and internal control systems. The risk management report, internal audit report and this report have been submitted to the audit committee and the Board for approval. For details, please refer to the "Risk Management and Internal Control" section of the Group's corporate governance report.

SUSTAINABLE DEVELOPMENT POLICY

We deeply understand that while the Group is pursuing operational excellence, it is necessary to uphold the roles and responsibilities of sustainable development. The Group values the well-being of its partners, employees and stakeholders, and focuses on issues such as community and environmental protection. To implement the vision of sustainable development, the Group has formulated the following sustainable development principles:

- The Group is committed to being a good employer, creating a fair and respected working environment where employees can develop their strengths;
- The Group is committed to protecting the health and safety of its employees;
- The Group cherishes and protects natural resources and biodiversity, and assesses and properly manages all potential negative impacts of its business operations on the environment;
- The Group cooperates with other institutions to promote sustainable development to various industries;
- The Group communicates regularly with stakeholders to understand their views and demands.

COMPLIANCE

In order to ensure the compliance of the Group's operations, we maintain close attention to major laws and regulations related to the daily operations and business of the Group, regularly track and understand the updates of regulations, seek assistance from professional legal counsels when necessary, and notify relevant departments in time to comply with the latest laws and regulations, to fully implement the compliance principle.

REPORTING PRINCIPLES

This report has been complied in accordance with the four reporting principles in the ESG Guide, including "Quantitative", "Materiality", "Consistency" and "Balance".

"Quantitative": The Group has established internal guidelines and procedures with reference to industry practices and the guidelines, laws and regulations of the exchange and relevant government departments, collected environmental and social performance data from various business departments, and retained relevant monitoring instrument records or supporting documents. For standards, methods and assumptions for calculating performance data (if applicable), please refer to the relevant sections in the report.

"Consistency": The report's statistical method of disclosure is the same as last year, and the same data statistics and conversion methods are used. Relevant historical data has been disclosed in the report, allowing stakeholders to better understand and compare the Group's sustainable development performance.

"Materiality": When defining important ESG issues related to the Group's business and stakeholders, we maintain communication inside and outside the Group to understand their expectations and recommendations. We are in close contact with stakeholders, including employees, investors, customers, suppliers, local government agencies, and local relations organizations, regardless of whether they are affected by or have significant influence on our operations.

"Balance": This report provides an unbiased picture of the Company's ESG performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

The Group actively assumes environmental and social responsibilities, and is committed to creating long-term benefits for relevant stakeholders including employees, investors, customers and business partners and promoting sustainable development. Through announcements and circulars, employee training, annual and interim reports, general meetings, customer questionnaires, field visits, supplier evaluations, consultations and seminars, we sincerely invite different stakeholders to participate and provide comments so as to fully understand the expectations and needs of all parties, which helps us improve and optimize our business model, and promotes social harmony and sustainable development.

Stakeholders	Engagement Methods
Investors and shareholders	• Annual general meetings and notices • Regular corporate publications, including annual and interim reports • Circulars and announcements (if necessary) • Company website • Sending enquiries and suggestions to the Company's principal place of business • Enquiries via telephone and in writing (if necessary)
Employees	• Internal emails and publications • Meetings and briefings • Trainings • Employee activities • Performance appraisal
Customers	• Company website • Customer service hotline • Customer interviews and meetings • After-sale feedback
Suppliers and business partners	• Business meetings • Performance appraisal • Field visit
Government and regulatory authorities	• Verbal and written communication (if necessary)
Community groups and the public	• Social service • Charity events • Public consultation email
Media	• Company website • Press release

Table 1 Stakeholders and engagement methods

MATERIALITY ASSESSMENT

We have performed the materiality assessment to identify relevant ESG issues and assessed their materiality to our businesses and stakeholders to ensure that the level of disclosure of relevant issues in this report can effectively protect the right to know of our stakeholders. The materiality assessment process is set out as follows:

- Identification of potential issues: Initial screening of related issues with reference to the ESG Guide and benchmarking suitable peers' material ESG issues;
- Stakeholder engagement: Establishing stakeholder engagement channels through which internal and external stakeholders are invited based on factors such as influence, necessity, willingness to participate, etc. to rate and comment on each ESG issue via questionnaires;
- Consolidating the results from stakeholder engagement, identifying issues, and ranking the materiality of issues according to the principles of relevance and influence;
- Validation: The management has validated and confirmed the material ESG issues, and how they link to the respective aspects of KPIs under the ESG Guide.

The table below lists out the ESG issues which were determined to be material to the Group during the Reporting Period:

Summary of the ESG Guide	Material ESG Issues
A. Environmental	
A1. Emissions	• Greenhouse Gas Management
	• Non-hazardous Waste Management
A2. Use of Resources	• Electricity Consumption Efficiency
	• Water Consumption Efficiency
A3. The Environment and Natural Resources	• Environmental Management System
A4. Climate Change	• Management of climate Change
B. Social	
B1. Employment	• Equal Opportunities
	• Recruitment and Dismissal
	• Compensation, Benefits and Promotion
B2. Health and Safety	• Safety Risk Management and Training
B3. Development and Training	• Employee Training Management
B4. Labour Standards	• Prevention of Child and Forced Labour
B5. Supply Chain Management	• Supplier Evaluation Mechanism
B6. Product Responsibility	• Quality Control
	• Customer Service
	• Customer Information and Privacy
B7. Anti-corruption	• Prevention of Bribery, Extortion, Fraud and Money Laundering
B8. Community Investment	• Community engagement

Table 3 Material ESG issues related to the Group

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

A1 Emissions

To demonstrate the Group's commitment to sustainable development, we are committed to reducing the environmental impact of our business activities and adhere to green operations and green office.

The Group's operation process does not involve the discharge of major waste gas, sewage, hazardous waste, etc. and limited workplace effluents and wastes are attributed to the operation of the Group's offices. The scope and nature of the Group's business are high-tech applications and services. Therefore, no direct emissions are caused due to the establishment of large production facilities. For third-party manufacturers, the Group informs the other party of our environmental policy, requires their cooperation with the environmental management business, and where practical, checks relevant parties' environment-related issues on site. The Group also requires third-party manufacturers to strictly abide by environmental laws and regulations in relation to waste gas, sewage, and waste.

The Group has strictly complied with environmental laws, including the Environmental Protection Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Integrated Emission Standards of Air Pollutants, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, the Directory of National Hazardous Wastes, the Regulations on the Administration of National Environmental Monitoring, and the Regulations on the Administration of City Appearance and Environmental Sanitation. In 2019, the Group was not involved in any violations or any lawsuits that were relevant to the environmental protection and had significant influence on the Group (2018: nil).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(CONTINUED)*

A1 Emissions *(Continued)*

	KPI	Unit	**2019 (As of 31 December)**	2018 (As of 31 December)
Emissions of Air Pollutant by Vehicles[1, 2]				
Emission of nitrogen oxides (NOx)	A1.1	kg	**47.76**	10.49
Emission of sulfur oxides (SOx)	A1.1	kg	**0.86**	0.21
Emission of particulate matters (PM)	A1.1	kg	**3.52**	0.77
Greenhouse Gas Emission (Scope 1 and Scope 2)[1]				
Emission by vehicles (Scope 1)[2]	A1.2	Tons	**162**	29
Emission by electricity use (Scope 2)[3]	A1.2	Tons	**905**	1,029
Total emissions of greenhouse gas	A1.2	Tons	**1,067**	1,058[4]
Intensity of greenhouse gas emissions	A1.2	Tons per employee	**1.77**	2.5

Table 4 Data on related emissions in 2019 and 2018

1 The above calculations of greenhouse gas and air pollutant emissions are based on the Greenhouse Gas Protocol published by World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings in Hong Kong issued by the Environmental Protection Department, Sustainability Report 2018 issued by HK Electric, 2017 Baseline Emission Factors for Regional Power Grids in China issued by the Ministry of Ecology and Environment of the People's Republic of China and the Greenhouse gas reporting – Conversion factors 2019 issued by the Department for Business, Energy & Industrial Strategy of the United Kingdom Government.

2 The increase in air pollutants and greenhouse gas emissions by vehicles over the previous year was due to the reporting scope of this report is enlarged by the companies engaged in vehicle connectivity business in Europe, the United States and the Asia-Pacific region that were acquired by the Company on 27 February 2019.

3 The decrease in greenhouse gas emissions by electricity use was due to changes in emission factors and the effects of the Company's energy efficiency measures.

4 This figure only includes greenhouse gas emissions within Scope 1 and Scope 2.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(CONTINUED)*

A1 Emissions *(Continued)*

Greenhouse Gas Management

Our greenhouse gas emissions are mainly from office electricity and car use. For measures to conserve energy and reduce emissions, please refer to Aspect A2 Use of Resources.

Non-hazardous Waste Management

Office waste is uniformly handled by the Group's offices property management companies. Since the Group has only a small amount of office waste, the total amount is not required to be disclosed in accordance with the principle of materiality.

A2 Use of Resources

We are fully aware of the finiteness and scarcity of resources, so we will continue to uphold the principle of waste reduction through recycling, develop guidelines to encourage our employees to improve resource utilization, and hope that we can enhance operational efficiency while reducing our carbon footprint.

The resources consumed by the Group mainly include electricity and water used at its offices and fuel used by automobiles in daily operations. In order to better manage the use of resources, we regularly evaluate the use of resources and incorporate environmental protection and resource utilization efficiency into business considerations. The Group promotes green office to reduce the consumption of natural resources and its impact on the environment. Relevant departments regularly complete data collection and analysis, and summarize the problems identified.

The Group adopts measures to save paper, such as adopting double-sided printing, re-using envelopes, circulating electronic format rather than hard copies of daily press, etc. We encourage our employees to adopt a paperless approval mode without signing and reply slips, and gradually electronicize business processes to reduce paper consumption. Employees also actively recycle waste paper for reuse.

The Group recognizes the importance of green shopping for the protection of natural resources. Therefore, when we moved our office, we only purchased some necessary second-hand office furniture instead of new office furniture, and reused old furniture to reduce manufacturing waste. We also set up recyclable collection points to encourage employees to establish the concept of "Clean Recycling" and reduce consumables. Through the implementation of these measures, the waste generated from office operations has been reduced, the green living culture has been promoted, and employees' environmental awareness has improved.

A. ENVIRONMENTAL *(CONTINUED)*

A2 Use of Resources *(Continued)*

	KPI	Unit	**2019 (As of 31 December)**	2018 (As of 31 December)
Resource consumption[5, 6]				
Total electricity consumption	A2.1	Kwh	**1,436,938**	1,230,349
Intensity of total electricity consumption	A2.1	Kwh per employee	**2,379.04**	2,901.77
Total fuel consumption (vehicle)	A2.1	Litre	**58,206**	10,915
Intensity of total fuel consumption (vehicle)	A2.1	Litres per employee	**96.37**	25.74
Total water consumption	A2.2	Cubic meter	**8,540**	5,386
Intensity of total water consumption	A2.2	Cubic meters per employee	**14.14**	12.70
Packaging materials used	A2.5	Tons	**136**	37
Intensity of packaging materials used	A2.5	Tons per employee	**0.22**	0.09

Table 5 Data on related resource consumption in 2019 and 2018

5 The increase in electricity and fuel consumption and total water consumption over the previous year was due to the reporting scope of this report is enlarged by the companies engaged in vehicle connectivity business in Europe, the United States and the Asia-Pacific region that were acquired by the Company on 27 February 2019.

6 The increase in the use of packaging materials over the previous year was due to the increase in orders for companies engaged in ADAS lens business in Suzhou, so the use of resources also increased in the context of rising production.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(CONTINUED)*

A2 Use of Resources *(Continued)*

Electricity Consumption Efficiency

We have formulated energy-saving measures to reduce electricity consumption and greenhouse gas emissions. Our employees are required to comply with energy-saving policies and turn off lights, air conditioners, computers, workstations (including monitors) and other electronic equipment after work. We also adopt other measures to achieve best environmental practice standards, including:

- Installing high-performance lamps and electrical equipment to reduce electricity consumption;
- Giving priority to personal office equipment with energy labels;
- Setting the time for default standby or hibernation mode for all computers, and switching the computer to sleep or hibernation mode when it is idle;
- Air-conditioning in the office is constantly set at 24-26 degrees;
- Regularly maintaining and inspecting daily electrical facilities to ensure there are no abnormalities in their power consumptions;
- Affixing "Saving Energy" stickers near the main switches as a reminder to our employees;
- Minimizing business trips and encouraging telephone calls and video conferences instead;
- Advocating electricity conservation awareness by means of regularly sending emails to groups and providing trainings, and educating employees to reduce wastage in small details of daily lives.

Water Consumption Efficiency

Paying attention to water consumption and aiming at using water in the most efficient way, the Group has implemented water conservation programs in the office, including enhancing the daily maintenance of water supply equipment to avoid leakage due to damage, adopting electric filter taps, posting slogans to remind employees to save water, and adjusting water valves to the position with minimum water consumption. The water comes from the government's water supply system, and the water supply is managed by the office's property management company. No problems have been found in sourcing water that is fit for purpose. All workplace effluents are discharged into the municipal sewer systems for collective treatment in accordance with the Waste Water Quality Standards for Discharge to Municipal Sewers.

A3 The Environment and Natural Resources

Environmental Management System

The nature of the Group's business does not involve highly pollutant production and operation procedures, so we will not create a significant impact on the environment and natural resources. However, we remain dedicated to taking measures to address the energy efficiency and environmental protection needs. We have already established and improved the environmental management system and will continuously assess and control the potential impacts of our business activities on the environment. We guide each subsidiary to conduct risk identification and impact assessment of environmental factors every year, consider expectations of stakeholders and compliance requirements, and plan risk response measures to avoid and reduce adverse effects on business and the environment.

A. ENVIRONMENTAL *(CONTINUED)*

A4 Climate Change

As climate risks worsen, the Group will continue to improve its ability to respond to climate impacts and strive to reduce greenhouse gas emissions. The Group will continue to monitor and control the potential risks brought by the climate to the Group. In the event of an emergency, such as an earthquake or typhoon, we will implement timely measures to minimize the negative impact on our business.

B. SOCIAL

B1 Employment

The Group attaches importance to the growth of talents just as it attaches importance to the growth of its business, and believes that employees are a valuable asset of the Group and an important cornerstone of the Company's steady development.

The Group strictly complies with national and local laws and regulations, such as the Employment Ordinance of the laws of Hong Kong, the Labour Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Women's Rights and Interests, the Trade Union Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, as well as relevant legislation in the European Union, the United States, Israel, and South Korea. In 2019, the Group was not involved in any violations or any lawsuits or appeals that were relevant to employment and had significant influence on the Group (2018: nil).

Equal Opportunities

The Group is committed to providing equal opportunities for both job applicants and employees. We respect multiculturalism and take justice and fairness as the principles of human resource management. The Group provides employees or job applicants with fair employment and development opportunities regardless of age, gender, region, custom, social class, religion, physical disability, political affiliation, etc., and will never discriminate against them.

Recruitment and Dismissal

The Group's recruitment principles are equal stress on integrity and ability, recruitment of workers on a selective basis, and fair competition. We have established recruitment and selection procedures, and explained the main steps of the recruitment process, such as selecting talents through various channels, conducting interviews and background checks to evaluate their capabilities, experience, and work attitude to screen suitable talents. With regard to demission, we have formulated employee demission management arrangements, including the process of review and approval of demission, hand-over for demission, etc., to ensure that the demission is carried out in an orderly manner and in compliance with legal requirements. Except for violations of national laws and regulations, serious violations of discipline, etc., we will not dismiss employees unreasonably.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(CONTINUED)*

B1 Employment *(Continued)*

Compensation, Benefits and Promotion

In order to attract and retain talents, we regularly refer to the benchmark salary and welfare packages of our peers, and the social security systems and related regulations of different countries and regions to ensure that we can maintain our competitive advantages. Benefits for full-time employees include medical insurance, retirement benefits and employee discounts. The Group has also formulated vacation management regulations. All employees are entitled to paid vacation such as national and corporate holidays, annual leave, sick leave, maternity/paternity leave, marriage leave, bereavement leave, etc.

In recognition of employees' contributions, we continue to improve and implement performance management assessment mechanisms, require managers at all levels to pay attention to employees' growth and development, improve the effectiveness of performance management, and achieve common development between employees and the Company. Promotions or pay increases will be arranged based on factors such as business performance, market conditions, employee performance, and inflation, and are designed to provide attractive salaries to retain talent and recognize their contributions.

The following is the basic information of the Group's employees by gender, age group and geographical region:

	2019 (As of 31 December)		2018 (As of 31 December)	
Employees by gender				
Gender	**Male**	**Female**	Male	Female
Number of employees	**405**	**199**	243	181
Approximate percentage of the total number of the Group's employees	**67%**	**33%**	57%	43%

Table 6 Number and proportion of employees by gender in 2019 and 2018

	2019 (As of 31 December)					2018 (As of 31 December)				
Employees by age group										
Age group	**18-25**	**26-35**	**36-45**	**46-55**	**>55**	18-25	26-35	36-45	46-55	>55
Number of employees	**93**	**313**	**127**	**58**	**13**	83	256	73	9	3

Table 7 Number of employees by age in 2019 and 2018

B. SOCIAL *(CONTINUED)*

B1 Employment *(Continued)*

Compensation, Benefits and Promotion (Continued)

	2019 (As of 31 December)			2018 (As of 31 December)	
Number of employees by geographical region					
Region	**Hong Kong**	**Mainland China**	**Others**	Hong Kong	Mainland China
Number of employees	**17**	**451**	**136**	19	405

Table 8 Number of employees by geographical region in 2019 and 2018

The increase in the number of employees as at 31 December 2019 over 31 December 2018 was mainly due to the Company's completion of the acquisition of vehicle connectivity business in Europe, the United States and the Asia-Pacific region on 27 February 2019.

B2 Health and Safety

Safety Risk Management and Training

Safe work and employee health are the foundation and guarantee of sustainable development for an enterprise. We have developed a comprehensive occupational health and safety management system detailing the responsibilities of the Group and its employees in maintaining the safe working environment. We have formulated clear guidelines setting out the handling arrangements for employees in emergency situations, such as accidents at work and fire alarms, in order to control the situation as soon as possible, and we will conduct post hoc reviews.

In order to raise awareness of occupational health and safety, we regularly organize occupational health and safety training for employees, as well as health and safety training related to specific work procedures, including fire drills and first aid courses. The Group provides comprehensive health protection for each employee, providing non-medical insurance and child protection benefits. The Group also encourages its employees to actively participate in fitness and strengthen their physique. The Group regularly cleans office areas and employs professionals to conduct safety inspections. In addition, it adopts appropriate precautionary and protective measures to strive to maintain a hygienic, clean and safe working environment. During the reporting period, there were no cases of workplace fatalities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(CONTINUED)*

B2 Health and Safety *(Continued)*

Safety Risk Management and Training (Continued)

In early 2020, affected by the new pneumonia epidemic, in order to protect the health of employees, the Company has implemented flexible work arrangements, and employees can work from home. The Company has provided employees with alcohol disinfectants and masks, and sold masks at preferential prices to employees as needed to maintain employees' personal hygiene and reduce the risk of virus transmission. The Company's management will continue to rigorously monitor the development of the epidemic, ensure that response measures are formulated in accordance with developments in a timely manner, and minimize the negative impact on the Company.

The Group strictly complies with local labour laws and regulations related to occupational safety and health regulations, such as the Occupational Safety and Health Ordinance of the laws of Hong Kong, the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the National Work Safety Law, the Trade Union Law of the People's Republic of China, the Regulation on Work-Related Injury Insurance, the Social Insurance Law of the People's Republic of China, as well as relevant legislation in the European Union, the United States, Israel, and South Korea. In 2019, the Group was not involved in any violations or any lawsuits or appeals that were relevant to occupational safety and health and had significant influence on the Group (2018: nil).

B3 Development and Training

Employee Training Management

We are committed to providing continuous training for employees and providing a good career development platform for them to exert their strengths. The Group attaches great importance to the development of employees and their skills. Each subsidiary has formulated employee training plans based on different responsibilities, qualifications and other job needs. For example, we provide induction training for newly recruited employees, professional skills training for various positions, training related to R&D and business, and soft skills and career planning training related to employees' development, etc., and encourage each employee to develop together with the business of the Group.

The induction training we provide to new employees is designed to increase their awareness of business, job responsibilities, company culture, and improve their professional capabilities and sense of belonging to the Company. In addition, in-service employees will receive a series of trainings on a regular basis, including industry seminars, product and sales training, workshops, internal training, etc. to improve their professional ethics and level of expertise, and fully understand the changes in the external market environment. The training content includes safety production, the Company's management policies, cloud control data practices, legal updates, product quality risks, equipment operations, and interpersonal relationships.

B. SOCIAL *(CONTINUED)*

B3 Development and Training *(Continued)*

Employee Training Management (Continued)

We review the capabilities and needs of our employees each year to ensure that they have appropriate channels to communicate with the management. Each employee will set short-term development goals for the coming year based on their own interests and potential, and the Company will try to meet their needs. We encourage employees to share their experiences with colleagues through the organization of voluntary sharing sessions or weekly meetings, and promote a culture of humble learning.

In addition, the Company arranges continuous professional training for all directors every year in accordance with the Hong Kong Listing Rules, and each director obtains the latest listing rules and laws from time to time. The company secretary also confirms to complete no less than 15 hours of relevant professional training each year.

B4 Labour Standards

Prevention of Child and Forced Labour

The Group has strict restrictions on the age of employees, and strictly checks and verifies the age of candidates during the recruitment process to prevent the recruitment of child labour. In the recruitment process, candidates are also required to provide academic qualifications and work supporting documents for verification, and those suspected of false education and work experience will not employed by the Group.

In addition, the Group will explain the labour contract to each new employee, who will sign the labour contract and agree to the terms of the labour contract. In order to avoid the occurrence of forced labour, the Group has prepared an employee manual, which contains relevant regulations prohibiting forced labour, and regularly organizes employees to study and raise their awareness. In addition, the Group strictly complies with existing laws and regulations, including the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Disabled Persons, the Provisions on the Prohibition of Using Child Labour, the Special Rules on the Labour Protection of Female Employees, the Provisions on the Special Protection of Underage Workers, the EU Charter of Fundamental Rights Article 5 – Slavery/Forced Labor, as well as relevant legislation in the European Union, the United States, Israel, and South Korea, and prohibits all coerced, threatened and other forced labour.

In 2019, the Group was not aware of any violation of laws and regulations regarding the prohibition of child labour and forced labour (2018: nil).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(CONTINUED)*

B5 Supply Chain Management

Supplier Evaluation Mechanism

The Group values the partnership with suppliers and believes that effective supply chain management is essential to maintaining product quality and stability, and has a significant impact on the Group's business sustainability. We continue to deepen strategic cooperation with enterprises through standardizing procurement processes, while effectively controlling potential risks in the supply chain and optimizing supply chain management.

In the selection of suppliers, we first review potential manufacturers, conduct basic background checks on them, and only cooperate with qualified asset managers and suppliers who have no conflicts of interest. After passing product quality, price evaluation and field inspections, qualified suppliers will be included in the list of approved suppliers. In order to continuously guarantee the quality of products and services supplied, we will evaluate the suppliers on a quarterly basis, and only continue to cooperate with suppliers that meet the requirements.

We encourage suppliers to maintain a high standard on business ethics and conducts, with satisfactory environmental and social performance. During the selection and evaluation processes, we have incorporated evaluation criteria such as environmental and social performance.

B6 Product Responsibility

Quality Control

We continuously improve the quality and safety inspection system of services, and conscientiously perform management and supervision functions, including labelling products appropriately, ensuring that the project design can meet customers' quality requirements, and attaching great importance to the continuous improvement of standards. We will review and inspect the quality requirements and target conditions at different stages of project design, development and completion. By conducting a series of system tests and program tests, the actual results are compared with the expected results, in order to find any differences and areas for improvement, and strive for excellence. We ensure that each customer's needs are met and that the standard and outcome of every product is consistent.

B. SOCIAL *(CONTINUED)*

B6 Product Responsibility *(Continued)*

Customer Service

The Group arranges personnel-in-charge to communicate with customers in the pre-project, in-project and post-project phases of the products and services, in order to understand customers' needs, safeguard customers' rights and continuously improve the quality of our services. We will understand the expectations of our customers in detail through communications before the start of the project, and determine the project work plan based on the interests of customers. During the execution process of the project, we will closely communicate with customers on the project progress, the gap between the actual progress and the plan, and their opinions on quality and service. After the completion of the project, we will also provide customers with timely maintenance services and technical consultation, and will collect their feedback on the quality of our products and services and report to relevant departments. As such, we continuously improve the quality of our products and services. Should a complaint arise, the Group will immediately assess the complaint and conduct an internal investigation into the matter to identify the source of the issue. If customers are not satisfied with the quality of products and services or have safety considerations for products and services, the Group arranges sufficient channels and personnel to communicate with customers in a timely manner and resolve related issues as soon as possible.

Customer Information and Privacy

The Group also attaches great importance to data protection and privacy. All employees are required to abide by the ethics code in the employee handbook and to keep customer, product and company information strictly confidential. Our contracts with our suppliers also clearly state the confidentiality responsibilities of both parties, and no data can be used without authorization. The legal department of the Group also reviews operation contracts with major changes to ensure that the contracts protect the rights and interests of both parties. It covers the confidential data of all customers and can only be accessed by the employees responsible for the relevant customers.

We have strictly complied with the Product Quality Law of the People's Republic of China, the Tort Law of the People's Republic of China, the Advertising Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, as well as laws and regulations related to product and service quality in the European Union, the United States, Israel, and South Korea. In 2019, the Group was not involved in any violations or any lawsuits or appeals that were relevant to the quality of products and services and had significant influence on the Group and our customers did not complain or terminate projects due to poor quality and safety issues (2018: nil).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(CONTINUED)*

B7 Anti-corruption

Prevention of Bribery, Extortion, Fraud and Money Laundering

The Group is committed to operating its business with high standards of ethics, integrity and integrity, and prevents any form of corruption and bribery.

To this end, the Group has formulated a series of relevant policies and guidelines for employee conduct. The policies and guidelines are applicable to all employees of the Group, including directors, senior management and employees at all levels, to ensure that the concept of integrity management is implemented. The Company also implements an interest declaration mechanism. In the event of a potential conflict of interest, it is necessary to notify the management immediately. In addition, through regular anti-corruption and bribery education and training within the Group, employees' awareness of the Group's integrity culture and work style is enhanced, and employees become strict with themselves and dedicated.

The Group never tolerates acts of corruption. The Group has set up an internal control system to clarify the procedures for reporting, handling, investigating, testifying, closing cases and punishing, and check the effectiveness of the system every year to prevent non-compliance. The Group encourages its employees, business partners and external third parties to promptly report actual or suspected misconduct such as dereliction of duty, abuse of power, bribery, etc. for investigation and verification, and report to regulatory and law enforcement agencies when necessary. Meanwhile, the identity of the whistle-blower and the matters reported are kept extremely confidential, and the access to the information on the investigation is strictly limited.

We have complied with the Criminal Law of the People's Republic of China, the Criminal Procedure Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery, the Anti-Money Laundering Law of the People's Republic of China, the Belgian Act of 18 September 2017 on the prevention of money laundering, terrorist financing and to restrict the use of cash ("AML Act"), as well as relevant legislation in the European Union, the United States, Israel, and South Korea. In 2019, the Group was not aware of any violation of laws and regulations regarding anti-corruption, bribery, extortion, fraud and money laundering (2018: nil).

B8 Community Investment

Community Engagement

Young people are a solid force for social development, so the Group values the development of young people. Relying on our global layout and strong scientific research resources, we plan and implement community investment projects, especially education investments, around the world, and are actively committed to bringing positive impact to the community and practicing corporate social responsibility.

In Belgium, we have established a close relationship with local schools. By using our own resources, we have helped five master students from two local universities to complete the research and writing of their master thesis. While providing help to students, we also demonstrated our promotion of the concept of community inclusion.

B. SOCIAL *(CONTINUED)*

B8 Community Investment *(Continued)*

Community Engagement (Continued)

In France, every year we visit local universities and engineering schools, and hold seminars and exchanges with local students to provide students with cutting-edge knowledge in high technology and other fields to help them better understand the process and development of the times. In addition, in order to help students better adapt to the change from school to society, we encourage and regularly organize local students to actively participate in scientific research training, and help students engage in research and exploration in all aspects through months or longer. Moreover, we will regularly conduct a week-long youth scientific observation training program to cultivate young people who are interested in a career in the scientific research industry in the future.

In Israel, we have friendly cooperation with the local Kenneret College. In terms of academics, we regularly send special personnel to visit the R&D centre to conduct interactions and exchanges with students. In terms of employment, in order to improve students' social practice ability and help them adapt to society faster, we will recruit interns from Kenneret College every year, and select an excellent intern to be our new employee to help solve employment problems.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX 1: ESG GUIDE CONTENT INDEX

	ESG Indicators	Disclosure Sections
A1. Emissions	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	A1 Emissions
A1.1	The types of emissions and respective emissions data.	A1 Emissions
A1.2	Greenhouse gas emissions and, where appropriate, intensity.	A1 Emissions
A1.3	Total hazardous waste produced and, where appropriate, intensity.	N/A
A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	N/A
A1.5	Description of measures to mitigate emissions and results achieved.	A1 Emissions – Greenhouse Gas Management A2 Use of Resources
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	A1 Emissions – Non-hazardous Waste Management
A2. Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	A2 Use of Resources
A2.1	Direct or indirect energy consumption in total and intensity.	A2 Use of Resources
A2.2	Water consumption in total and intensity.	A2 Use of Resources
A2.3	Description of energy use efficiency initiatives and results achieved.	A2 Use of Resources – Electricity Consumption Efficiency
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	A2 Use of Resources – Water Consumption Efficiency
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	A2 Use of Resources
A3. The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	A3 The Environment and Natural Resources
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	N/A

APPENDIX 1: ESG GUIDE CONTENT INDEX *(CONTINUED)*

	ESG Indicators	Disclosure Sections
B1. Employment	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	B1 Employment
B1.1	Total workforce by gender, employment type, age group and geographical region.	B1 Employment
B2. Health and Safety	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	B2 Health and Safety
B3. Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	B3 Development and Training
B4. Labour Standards	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	B4 Labour Standards
B5. Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	B5 Supply Chain Management
B6. Product Responsibility	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	B6 Product Responsibility
B7. Anti-corruption	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	B7 Anti-corruption
B8. Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	B8 Community Investment

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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

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

OPINION

We have audited the consolidated financial statements of TUS International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 82 to 205, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 in the consolidated financial statements, which indicates that the Group incurred a loss of approximately HK$301,321,463 for the year ended 31 December 2019 and, as of that date the Group had net current liabilities of approximately HK$656,074,041. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section, we have determined the matters described below to the key audit matters to be communicated in our report.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Accounting for business combinations Refer to note 3 and note 42 to the consolidated financial statements. During the year ended 31 December 2019, the Group has completed a significant business acquisition, through the acquisitions of 100% equity interests in Titan Automotive Solutions NV and its subsidiaries (collectively the "Acquisitions") for a total consideration of HK$530,400,816. Management of the Company accounted for the Acquisitions as business combinations using the acquisition method under HKFRS 3 (Revised) *Business Combinations* and has exercised significant judgement in establishing the initial estimates of the fair values of the identifiable assets and liabilities acquired together with the goodwill arising from the Acquisitions in preparing their purchase price allocations and in particular, the Group engaged external valuers to assist in the valuation of intangible assets acquired. The related significant accounting policy for intangible assets and the disclosure for business combinations are included in notes 3(j) and 42 to the consolidated financial statements, respectively.	Our audit procedures to assess the accounting for business combinations included the following: • Read the sales and purchase agreements and assessed whether the correct accounting treatment has been applied, including the timing at which control has been passed; • Evaluated the valuation of the assets and liabilities of the companies acquired, and in particular, we involved our internal valuation specialists to assist us in assessing the valuation methodologies applied and the key assumptions and estimates adopted in the valuation of intangible assets acquired; • Obtained and reviewed the valuation reports prepared by the external valuers and checked the mathematical accuracy and relevance of the input data used; • Assessed the external valuers' qualifications, experience and expertise and considered their objectivity and independence; and • Assessed the adequacy of disclosures in these business combinations in the consolidated financial statements. We found the acquisition date fair values of the identifiable assets acquired and liabilities assumed and the consideration are supported by the available information.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Assessing the fair value of financial assets at fair value through other comprehensive income	
Refer to note 4 and note 26 to the consolidated financial statements. At 31 December 2019, the fair value of the Group's financial assets at fair value through other comprehensive income of HK$265,365,619 was classified under the fair value hierarchy as level 3 financial instruments and change in fair value of financial assets at fair value through other comprehensive income of HK$48,308,189 was recognised to other comprehensive income during the year ended 31 December 2019. The valuation of the Group's financial assets at fair value through other comprehensive income is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant judgement. We identified assessing the fair value of financial assets at fair value through other comprehensive income as a key audit matter because of the degree of complexity involved in valuing financial assets at fair value through other comprehensive income and because of the degree of judgement exercised by management in determining the inputs used in the valuation methods.	Our audit procedures to assess the fair value of financial instruments included the following: • Engaging our valuation specialists to evaluate the valuation methods used by the Group to value level 3 financial instruments and to perform, on sample basis, independent valuations for level 3 financial instruments and compare these valuations with the Group's valuations. This included comparing the Group's valuation methods with our knowledge of current market practice, testing inputs to the fair value calculations; and • Assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards. We found that judgement made by the management in relation to valuation of financial assets at fair value through other comprehensive income to be supported by available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill and intangible assets Refer to note 4, note 21 and note 22 to the consolidated financial statements. The Group has carrying amount of goodwill and intangible assets of HK$651,328,971 and HK$438,699,395 respectively relating to each of respective cash generating units ("CGUs") of the finance lease of motor vehicles and equipment business and development, production and sales of ADAS and other automotive components business and development, manufacture and sales of grade cellular module as at 31 December 2019. The management performs an annual impairment test on the recoverability of the goodwill and intangible assets allocated to each CGU which is subjective in nature due to judgements having to be made of future performance. The valuation of recoverable amounts of CGUs to which goodwill and intangible assets allocated was performed by an independent professional external valuer based on the value in use calculation. The valuation requires the application of significant judgement and estimation by the management in determining the appropriate valuation methodology to be used, use of subjective assumptions and various unobservable inputs. The valuation is sensitive to underlying assumptions applied by the valuer such as pre-tax discount rates and growth rate used and cash flow projection which can have a significant impact to the valuation.	Our procedures in relation to the management's impairment assessment on goodwill and intangible assets included: • Assessing the valuation methodology; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Checking on sample basis, the mathematical accuracy and relevance of the input data used; • Assessing the competence, expertise and objectivity of the management expert who calculates the recoverable amount of CGUs; and • Engaging a valuation expert to evaluate the assumptions and methodologies used in the calculation. We found the management's judgements and assumptions used in the impairment assessments to be consistent with the available information.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 25 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$	2018 HK$
Continuing operations:			
Revenue	7	**781,801,363**	457,237,213
Cost of sales		**(683,967,661)**	(396,454,551)
Gross profit		**97,833,702**	60,782,662
Other revenue	8	**10,784,990**	3,256,133
Other gains and losses	9	**(19,568,694)**	(9,013,255)
Research and development expenses	10	**(103,377,165)**	(10,095,011)
Selling and distribution expenses		**(14,335,534)**	(12,152,427)
Administrative expenses		**(203,506,288)**	(101,260,090)
Allowance under expected credit loss model, net of reversal		**(11,242,054)**	11,303
Finance costs	11	**(66,616,412)**	(53,969,334)
Share of loss of an associate		**–**	(1,587,696)
Share of loss of a joint venture		**(1,096,586)**	(1,868,704)
Loss before taxation	12	**(311,124,041)**	(125,896,419)
Taxation	13	**11,839,096**	1,608,306
Loss for the year from continuing operations		**(299,284,945)**	(124,288,113)
Discontinued operation:			
Loss for the year from discontinued operation	41	**(2,036,518)**	(4,181,119)
Loss for the year		**(301,321,463)**	(128,469,232)
Other comprehensive (loss)/income for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**2,054,450**	(42,100,757)
Share of exchange differences of an investment in associates		**–**	97,996
Share of exchange differences of an investment in a joint venture		**–**	14,247
Reclassification adjustment of exchange differences upon disposal of subsidiaries		**303,551**	(13,221,081)
Items that will not be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		**(48,308,189)**	(100,700,755)
Remeasurement of defined benefit plans		**(1,813,650)**	–
Other comprehensive loss for the year		**(47,763,838)**	(155,910,350)
Total comprehensive loss for the year		**(349,085,301)**	(284,379,582)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$	2018 HK$
Loss for the year attributable to:			
Owners of the Company			
– from continuing operations		**(298,492,195)**	(120,252,473)
– from discontinued operation		**(1,038,624)**	(2,132,371)
		(299,530,819)	(122,384,844)
Non-controlling interests			
– from continuing operations		**(792,750)**	(4,035,640)
– from discontinued operation		**(997,894)**	(2,048,748)
		(1,790,644)	(6,084,388)
		(301,321,463)	(128,469,232)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(346,944,501)**	(273,019,105)
Non-controlling interests		**(2,140,800)**	(11,360,477)
		(349,085,301)	(284,379,582)
Loss per share attributable to owners of the Company	17		
From continuing and discontinued operations			
– Basic and diluted (HK cents)		**(15.52)**	(11.69)
From continuing operations			
– Basic and diluted (HK cents)	17	**(15.47)**	(11.48)
From discontinued operation			
– Basic and diluted (HK cents)	17	**(0.05)**	(0.21)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$	2018 HK$
Non-current assets			
Fixed assets			
– Property, plant and equipment	18	**80,614,712**	26,050,469
Right-of-use assets	19	**25,015,971**	–
Construction in progress	20	**12,604,121**	8,186,268
Deposit	28	**–**	45,539,400
Finance lease receivables	29	**8,693,237**	16,689,888
Intangible assets	21	**438,699,395**	84,179,470
Goodwill	22	**651,328,971**	164,772,765
Interests in associates	24	**–**	–
Interest in a joint venture	25	**–**	1,096,586
Financial assets at fair value through other comprehensive income	26	**265,365,619**	314,616,087
Deferred tax assets	35	**742,069**	–
		1,483,064,095	661,130,933
Current assets			
Inventories	27	**113,153,452**	91,767,498
Trade and bills receivables, prepayments and other receivables	28	**262,963,299**	304,983,330
Finance lease receivables	29	**34,255,867**	76,729,195
Pledged bank deposits	30	**3,883,581**	50,344,939
Cash and cash equivalents	30	**113,418,336**	53,653,443
		527,674,535	577,478,405
Assets of a disposal group classified as held for sales	41	**82,678,114**	–
		610,352,649	577,478,405
Current liabilities			
Trade and bills payables and other payables	31	**450,881,287**	234,954,138
Contract liabilities	32	**19,541,583**	29,754,161
Lease liabilities	34	**8,945,719**	–
Current tax payable	35	**8,688**	969,505
Borrowings	36	**487,049,413**	133,335,973
Convertible bonds	37	**300,000,000**	58,282,301
		1,266,426,690	457,296,078
Net current (liabilities)/assets		**(656,074,041)**	120,182,327
Total assets less current liabilities		**826,990,054**	781,313,260

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$	2018 HK$
Non-current liabilities			
Other payables	31	**144,331**	–
Net defined benefits liabilities	33	**6,416,315**	–
Lease liabilities	34	**16,582,712**	–
Deferred tax liabilities	35	**110,186,453**	4,450,766
Convertible bonds	37	**92,820,659**	329,443,363
		226,150,470	333,894,129
Net assets		**600,839,584**	447,419,131
Capital and reserves			
Share capital	40	**20,636,153**	13,231,849
Reserves	40	**552,952,938**	404,795,989
Equity attributable to owners of the Company		**573,589,091**	418,027,838
Non-controlling interests		**27,250,493**	29,391,293
Total equity		**600,839,584**	447,419,131

Approved by the Board of Directors on 25 May 2020 and signed on its behalf by:

Ma Chi Kong Karl
Chairman

Du Peng
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company												
	Share capital HK$	Share premium HK$	Statutory surplus reserve HK$	Exchange reserve HK$	Financial assets at fair value through other comprehensive income reserve HK$	Other reserve HK$	Share option reserve HK$	Convertible bonds reserves HK$	Warrants reserve HK$	Accumulated losses HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
As at 31 December 2017	9,281,849	477,037,709	2,190,561	6,278,029	–	(47,369,209)	23,457,860	33,337,594	5,040,560	(21,135,253)	488,119,700	44,880,394	533,000,094
Effect of adoption of HKFRS 9	–	–	–	–	8,066,436	–	–	–	–	(15,364,140)	(7,297,704)	–	(7,297,704)
As at 1 January 2018 (restated)	9,281,849	477,037,709	2,190,561	6,278,029	8,066,436	(47,369,209)	23,457,860	33,337,594	5,040,560	(36,499,393)	480,821,996	44,880,394	525,702,390
Loss for the year	–	–	–	–	–	–	–	–	–	(122,384,844)	(122,384,844)	(6,084,388)	(128,469,232)
Other comprehensive (loss)/income for the year, net of income tax:													
Exchange differences on translation of financial statements of foreign operations	–	–	–	(36,824,668)	–	–	–	–	–	–	(36,824,668)	(5,276,089)	(42,100,757)
Share of exchange differences of an investment in associates	–	–	–	97,996	–	–	–	–	–	–	97,996	–	97,996
Share of exchange differences of an investment in a joint venture	–	–	–	14,247	–	–	–	–	–	–	14,247	–	14,247
Reclassification adjustment of exchange differences upon disposal of subsidiaries	–	–	–	(13,221,081)	–	–	–	–	–	–	(13,221,081)	–	(13,221,081)
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	(100,700,755)	–	–	–	–	–	(100,700,755)	–	(100,700,755)
Total comprehensive loss for the year	–	–	–	(49,933,506)	(100,700,755)	–	–	–	–	(122,384,844)	(273,019,105)	(11,360,477)	(284,379,582)
Share-based payments	–	–	–	–	–	–	2,435,003	–	–	–	2,435,003	–	2,435,003
Lapse of share option	–	–	–	–	–	–	(6,690,871)	–	–	6,690,871	–	–	–
Changes in ownership interest in a subsidiary	–	–	–	–	–	(15,395,283)	–	–	–	–	(15,395,283)	(5,163,755)	(20,559,038)
Issue of shares, net of share issuing expense	3,950,000	202,185,590	–	–	–	–	–	–	–	–	206,135,590	–	206,135,590
Issue of convertible bond (Note 37)	–	–	–	–	–	–	–	20,418,727	–	–	20,418,727	–	20,418,727
Deferred taxation of convertible bonds (Note 35(b))	–	–	–	–	–	–	–	(3,369,090)	–	–	(3,369,090)	–	(3,369,090)
Disposal of subsidiaries	–	–	(2,190,561)	–	–	48,988,413	–	–	–	(46,797,852)	–	1,035,131	1,035,131
As at 31 December 2018	13,231,849	679,223,299	–	(43,655,477)	(92,634,319)	(13,776,079)	19,201,992	50,387,231	5,040,560	(198,991,218)	418,027,838	29,391,293	447,419,131
Effect of adoption of HKFRS 16	–	–	–	–	–	–	–	–	–	(183,081)	(183,081)	–	(183,081)
As at 1 January 2019 (restated)	13,231,849	679,223,299	–	(43,655,477)	(92,634,319)	(13,776,079)	19,201,992	50,387,231	5,040,560	(199,174,299)	417,844,757	29,391,293	447,236,050
Loss for the year	–	–	–	–	–	–	–	–	–	(299,530,819)	(299,530,819)	(1,790,644)	(301,321,463)
Other comprehensive (loss)/income for the year, net of income tax:													
Exchange differences on translation of financial statements of foreign operations	–	–	–	2,404,606	–	–	–	–	–	–	2,404,606	(350,156)	2,054,450
Reclassification adjustment of exchange differences upon disposal of subsidiaries	–	–	–	303,551	–	–	–	–	–	–	303,551	–	303,551
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	(48,308,189)	–	–	–	–	–	(48,308,189)	–	(48,308,189)
Remeasurement of defined benefits plans	–	–	–	–	–	(1,813,650)	–	–	–	–	(1,813,650)	–	(1,813,650)
Total comprehensive (loss)/income for the year	–	–	–	2,708,157	(48,308,189)	(1,813,650)	–	–	–	(299,530,819)	(346,944,501)	(2,140,800)	(349,085,301)
Share-based payments	–	–	–	–	–	–	977,071	–	–	–	977,071	–	977,071
Lapse of share option	–	–	–	–	–	–	(4,652,122)	–	–	4,652,122	–	–	–
Issue of shares (Note 40)	6,714,259	401,781,241	–	–	–	–	–	–	–	–	408,495,500	–	408,495,500
Conversion of convertible bonds	690,045	75,376,111	–	–	–	–	–	(15,066,156)	–	–	61,000,000	–	61,000,000
Transaction costs attributable to issue of shares and convertible bonds	–	(1,120,000)	–	–	–	–	–	–	–	–	(1,120,000)	–	(1,120,000)
Issue of convertible bond (Note 37)	–	–	–	–	–	–	–	39,923,669	–	–	39,923,669	–	39,923,669
Deferred taxation of convertible bonds (Note 35(b))	–	–	–	–	–	–	–	(6,587,405)	–	–	(6,587,405)	–	(6,587,405)
Lapse of warrants	–	–	–	–	–	–	–	–	(5,040,560)	5,040,560	–	–	–
As at 31 December 2019	**20,636,153**	**1,155,260,651**	**–**	**(40,947,320)**	**(140,942,508)**	**(15,589,729)**	**15,526,941**	**68,657,339**	**–**	**(489,012,436)**	**573,589,091**	**27,250,493**	**600,839,584**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$	2018 HK$
Operating activities			
Loss before taxation			
– Continuing operations		**(311,124,041)**	(125,896,419)
– Discontinued operation	41	**(2,036,518)**	(4,181,119)
		(313,160,559)	(130,077,538)
Adjustments for:			
– Depreciation of property, plant and equipment	18	**21,754,892**	5,366,400
– Depreciation of right-of-use assets	19	**7,325,964**	–
– Amortisation of intangible assets	21	**61,429,472**	18,607,792
– Finance costs	11	**66,616,412**	53,969,334
– Bank interest income	8	**(754,101)**	(1,897,898)
– Share of loss of an associate	24	**–**	1,587,696
– Share of loss of a joint venture	25	**1,096,586**	1,868,704
– Loss on disposal of property, plant and equipment	9	**1,122,936**	508,652
– Loss/(gain) on disposal of subsidiaries	9	**10,288,159**	(95,776)
– Allowance under expected credit losses model, net of reversal		**11,242,054**	(11,303)
– Impairment loss on interest in associate	24	**–**	5,119,061
– Share-based payments		**977,071**	2,435,003
Operating loss before changes in working capital		**(132,061,114)**	(42,619,873)
Increase in inventories		**(18,398,300)**	(8,113,620)
Increase/(decrease) in trade and bills receivables, prepayments and other receivables		**95,148,125**	(91,742,733)
Decrease in finance lease receivables		**43,157,396**	59,794,553
(Decrease)/increase in trade and bills payables and other payables		**(144,929,567)**	49,488,850
(Decrease)/increase in contract liabilities		**(2,197,364)**	29,754,161
Increase in net defined benefits liabilities		**6,416,315**	–
Cash used in operations		**(152,864,509)**	(3,438,662)
Income tax paid	35	**(2,660,297)**	(2,005,432)
Net cash used in operating activities		**(155,524,806)**	(5,444,094)
Investing activities			
Purchase of property, plant and equipment	18	**(10,174,775)**	(12,126,202)
Payment for construction in progress	19	**(5,280,637)**	(5,687,547)
Purchase of intangible assets	20	**(66,991,379)**	(65,745,463)
Net cash outflow on disposal of subsidiaries		**(2,058,383)**	(122,928)
Acquisition of additional equity interest in a subsidiary		**–**	(38,202,292)
Bank interest received	8	**754,101**	1,897,898
Proceed from disposal of property, plant and equipment		**1,354,744**	–
Acquisition of financial assets at fair value through other comprehensive income		**–**	(59,545,525)
Purchase of investment in a joint venture	25	**–**	(2,340,000)
Net cash outflow on acquisition of subsidiaries	42	**(522,869,224)**	–
Withdrawal of pledged bank deposits		**46,400,988**	12,832,954
Net cash used in investing activities		**(558,864,565)**	(169,039,105)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$	2018 HK$
Financing activities			
Issue of shares by subscription		**381,117,500**	168,188,412
Transaction cost attributable to issue of shares and convertible bonds		**(1,120,000)**	–
Proceeds from bank loans		**404,847,185**	83,678,648
Repayment of bank loans		**(86,423,773)**	(64,893,645)
Proceeds from other loans		**63,410,913**	43,241,870
Repayment of other loans		**(27,386,032)**	(6,830,910)
Finance costs paid		**(49,606,445)**	(30,868,950)
Issue of convertible bond		**89,882,500**	–
Repayments of lease liabilities		**(8,350,970)**	–
Net cash generated from financing activities		**766,370,878**	192,515,425
Net increase in cash and cash equivalents		**51,981,507**	18,032,226
Effect of foreign exchange rate changes		**8,238,725**	(27,825,640)
Cash and cash equivalents as at 1 January		**53,653,443**	63,446,857
Cash and cash equivalents as at 31 December		**113,873,675**	53,653,443
From continuing operations	30	**113,418,336**	53,653,443
From discontinued operation, classified as held for sales	41	**455,339**	–
		113,873,675	53,653,443

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

TUS International Limited (the "Company") was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs ("New and Amendments to HKFRSs") issued by the HKICPA for the first time in the current year:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments

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

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16 Leases *(Continued)*

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated. During the year ended 31 December 2019, application of HKFRS 16 by the Group as a lessor has no material impact on the Group's consolidated financial statement.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong, PRC and Europe was determined on a portfolio basis;

(iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options; and

(v) relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review.

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

HKFRS 16 Leases *(Continued)*

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 1.6% to 5.5%.

Impact on transition

The following table summarises the impact of transition to HKFRS 16 in accumulated losses as at 1 January 2019:

	1 January 2019 HK$
Accumulated losses as at 31 December 2018	(198,991,218)
Adjustment under HKFRS 16	(183,081)
Accumulated losses as at 1 January 2019 (Restated)	(199,174,299)

The following table reconciles the operating lease commitments as disclosed in note 42 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK$
Operating lease commitment as at 31 December 2018	7,595,170
Less: short-term lease and other lease with remaining lease term ending on or before 31 December 2019	(1,066,528)
Less: total future interest expenses	(2,129,024)
Lease liabilities as at 1 January 2019	4,399,618
Analysed as:	
– Current	3,191,783
– Non-current	1,207,835
Lease liabilities as at 1 January 2019	4,399,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Impact on transition *(Continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	1 January 2019 HK$
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	4,216,537
By class:	
Office premises	4,216,537

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2018 HK$	**Adjustment** HK$	**Carrying amount under HKFRS 16 at 1 January 2019** HK$
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-uses assets	–	4,216,537	4,216,537
Total non-current assets	661,130,933	4,216,537	665,347,470
Lease liabilities (current)	–	3,191,783	3,191,783
Total current liabilities	457,296,078	3,191,783	460,487,861
Net current assets	120,182,327	(3,191,783)	116,990,544
Lease liabilities (non-current)	–	1,207,835	1,207,835
Total non-current liabilities	333,894,129	1,207,835	335,101,964
Net assets	**447,419,131**	**(183,081)**	**447,236,050**
Reserves	**404,795,989**	**(183,081)**	**404,612,908**

Effect on cashflow

For the purpose of reporting cashflows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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

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

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

HKFRS 3 (Amendments)	Definition of a Business[4]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]
HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]

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

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

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

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The Directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of preparation of the consolidated financial statements

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Going concern

For the year ended 31 December 2019, the Group incurred a loss of approximately HK$301,321,463 and a net cash outflow from operating activities of approximately HK$155,524,806. As at 31 December 2019, the Group had net current liabilities of approximately HK$656,074,041. In addition, the Group had outstanding convertible bonds and borrowings of approximately HK$300,000,000 and HK$487,049,413 respectively which were due for repayment or renewal in the next twelve months after 31 December 2019.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Going concern (Continued)

These conditions indicate the existence of a material uncertainty that might cast significant doubt about the Group's ability to continue as going concern and therefore the Group may be unable to realise the Group's liabilities in the normal course of business.

In view of such circumstances, the directors of the Company have given careful consideration to future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding convertible bonds and borrowings and be able to finance its future working capital and finance requirements. Certain measures have been and will be taken to manage its liquidity need and to improve its financial position which include, but are not limited to, the following:

1. The Company has actively negotiated with banks to secure the renewals of the Group's bank borrowings to meet its liabilities when fall due;

2. The Group is currently in discussion with a bank on a waiver and potential restricting of certain financial covenants under the loan agreement;

3. The Group has received a written confirmation dated 15 March 2020 from Tuspark Venture Investment Limited ("Tuspark Venture"), one of the major shareholders of the Company, that it will provide financial support to the Group in the following 24 months on a going concern basis. Such assistance to be received by the Group will not be secured by any assets of the Group.

   Subsequent to the above, Tuspark Venture received a written confirmation dated 20 May 2020 from Tus-Holdings Co., Ltd., its holding company, that it will provide financial support to the Tuspark Venture in the following 24 months;

4. As at the date of approval of these consolidated financial statements, the Group has signed an agreement to obtain a financing from a financial institution;

5. 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;

6. The Group may consider to dispose non-core business and/or financial assets if required; and

7. The Company has actively negotiated with investors for the extension of convertible bonds and obtaining further financing when necessary including but not limited to shareholder's loan, equity financing, bank borrowing and issuance of new convertible bonds to improve the liquidity of the Group.

In the opinion of the Directors, in light of the various measures or arrangements implemented after the end of reporting period, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Going concern (Continued)

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

None of the goodwill recognised is expected to be deductible for income tax purpose.

(c) Basis of consolidation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation *(Continued)*

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combinations

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

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

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

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

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

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combinations *(Continued)*

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Goodwill

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

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

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

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

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

(f) Investment in associates and joint ventures

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

The requirements of HKFRS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate and joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate and joint ventures, or when the investment is classified as held for sales. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9. The difference between the carrying amount of the associate and joint ventures at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and joint ventures are included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate and joint ventures on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate and joint ventures would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Non-current assets held for sale and discontinued operation

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a Group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a noncontrolling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the noncurrent asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Property, plant and equipment

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

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

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

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

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

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

(i) Construction in progress

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Intangible assets (other than goodwill)

Intangible assets acquired separately

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

Internally-generated intangible asset – research and development expenditure

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

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

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

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

– the ability to use or sell the intangible asset;

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Derecognition of intangible assets

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

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

–	Patents	10-18 years
–	Exclusive right	10 years
–	Know-how	7 years
–	Brand name	8 years
–	Customer relationship	8 years
–	Development costs	5 years

Both the period and method of amortisation are reviewed annually.

(k) Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill *(Continued)*

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Leasing

HKFRS 16 Leases (upon application of HKFRS 16 in accordance with transitions in note 2)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Leasing *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Right-of-use assets *(Continued)*

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Leasing *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities *(Continued)*

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Leasing *(Continued)*

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Finance lease interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee (prior to 1 January 2019)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) Inventories

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

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

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

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

(n) Trade and bills receivables and other receivables

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

(o) Interest-bearing borrowings

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

(p) Trade and bills payables and other payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Cash and cash equivalents

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

(r) Employee benefits

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

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

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service costs, past service costs, as well as gains and losses on curtailment and settlements);
- net interest expense or income; and
- remeasurement

The Group presents the first two components of defined benefit costs in profit or loss in the line item "employee benefits expense". Curtailment gains and losses are accounted for as past service costs.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plan. Any surplus result from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reduction in future contribution to the plan.

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(r) Employee benefits *(Continued)*

(ii) Share options granted to employees

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

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

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

(iii) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Taxation

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

Current tax

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

Deferred tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Taxation *(Continued)*

Deferred tax (Continued)

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the rightof-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 'Income Taxes' requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(t) Provisions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(u) Government grant

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

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

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

(v) Current assets and liabilities

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

(w) Contingent liabilities and contingent assets

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

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

(x) Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

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

Effective interest method

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

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

Financial assets

(i) Classification and subsequent measurement of financial assets

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial assets (Continued)

(i) Classification and subsequent measurement of financial assets *(Continued)*

A financial asset is classified as held for trading if:

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

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

Amortised cost and interest income

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

Financial assets at FVTPL

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets

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

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

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

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

(a) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets *(Continued)*

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

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets *(Continued)*

(b) Definition of default

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

- when there is a breach of financial covenants by the debtor; or

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

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

(c) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets *(Continued)*

(d) Write-off policy

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

(e) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables and finance lease receivable are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial assets (Continued)

(ii) Impairment of financial assets *(Continued)*

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

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

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

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

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

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Financial liabilities

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payable, lease liabilities, bank and other borrowing and convertible bonds are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Derivative financial instruments

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

Convertible bonds

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Financial instruments *(Continued)*

Convertible bonds (Continued)

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

Warrants

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

Derecognition of financial liabilities

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

(y) Revenue recognition

Revenue from contracts with customers

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(y) Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

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

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

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

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

Sales of products

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

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

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

(z) Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(z) Foreign currencies *(Continued)*

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(aa) Borrowing costs

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

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

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

(ab) Related parties transactions

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

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) the entity and the Group are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(ab) Related parties transactions *(Continued)*

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

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

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

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

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

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

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

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

(ac) Segment reporting

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

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

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Management is of the opinion that there is no significant judgement, apart from those involving estimations, made in applying accounting policies that has a significant effect on the amounts recognised in the consolidated financial statement.

The following are the critical judgements, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statement.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Determining the lease term

As explained in policy note 3, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(b) Impairment of non-current assets

If a triggering event occurs indicating that the carrying amount of an asset may not be recoverable, an assessment of the carrying amount of that asset will be performed. Triggering events include significant adverse changes in the market value of an asset, changes in the business or regulatory environment, or certain legal events. The interpretation of such events requires judgement from management with respect to whether such an event has occurred. Upon the occurrence of triggering events, the carrying amounts of non-current assets are reviewed to assess whether their recoverable amounts have declined below their carrying amounts. The recoverable amount is the present value of estimated net future cash flows which the Group expects to generate from the future use of the asset, plus the assets residual value on disposal. Where the recoverable amount of non-current assets is less than its carrying value, an impairment loss is recognised to write the assets down to its recoverable amount.

(c) Depreciation and amortisation

Property, plant and equipment, right-of-use assets and intangible assets except for development costs (see notes 18, 19 and 21) are depreciated and amortised on a straight-line basis over their estimated useful lives. The Group annually reviews the useful life of an asset and its residual value, if any. The useful life is based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(d) Valuation of inventories

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

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

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 28.

(f) Impairment losses for property, plant and equipment, right-of-use assets and intangible assets

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

(g) Income taxes and deferred taxation

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

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

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(h) Estimated impairment of goodwill

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

(i) Impairment losses of interests in associate

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

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

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

(k) Fair values of unlisted equity investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Categories of financial instruments

	2019 HK$	2018 HK$
Financial assets		
At amortised costs	**374,953,695**	330,109,069
At fair value through other comprehensive income	**265,365,619**	314,616,087
Finance lease receivables	**42,949,104**	93,419,083
	683,268,418	738,144,239
Financial liabilities		
At amortised costs	**1,356,424,121**	756,015,775

Financial risk factors

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

(a) Credit risk

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

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2019.

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

(a) Credit risk *(Continued)*

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

As at 31 December 2019, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of automotive driving assistance system ("ADAS") and other automotive components. The Group's trade receivables arise from sales of automotive driving assistance system and other automotive components. As at the end of the year, the top five debtors and the largest debtor accounted for approximately 77.4% and 38.2% (2018: 81.4% and 47.0%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(a) Credit risk *(Continued)*

As at 31 December 2019, HK$3,875,565 of bills receivables were pledged to the banks to issue bills payables as set out in note 31 to the consolidated financial statements. All the bills receivables will be matured within six months after the end of the reporting period.

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

Finance lease receivables are mainly secured by leased assets mainly the motor vehicles (note 29) and the average lease term was between 1 to 3 years. Finance lease receivables were considered credit-impaired when the customers fail to settle according to the settlement terms for more than 180 days after taking into consideration the recoverability of collateral and deposits. As such, as at 31 December 2019, allowance for expected credit loss of HK$5,987,870 (2018: HK$Nil) for finance lease receivables was recognised.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018 and 2019:

As at 31 December 2019	**Expected loss rate %**	**Gross carrying amount HK$**	**Loss allowance HK$**
Less than 1 month past due	**3.30**	**129,069,322**	**4,260,141**
1 to 3 months past due	**3.34**	**20,484,675**	**684,913**
3 months to 1 year past due	**4.25**	**7,076,854**	**300,515**
More than 1 year	**6.12**	**9,285,794**	**568,468**
		165,916,645	**5,814,037**

As at 31 December 2018	Expected loss rate %	Gross carrying amount HK$	Loss allowance HK$
Less than 1 month past due	0.18	98,724,646	172,957
1 to 3 months past due	0.24	8,861	21
3 months to 1 year past due	4.06	7,487,140	304,107
More than 1 year	57.21	2,659,823	1,521,666
		108,880,470	1,998,751

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

(a) Credit risk *(Continued)*

The closing loss allowances for trade receivables and other financial assets at amortised cost as at 31 December 2018 and 2019 reconcile to the opening loss allowances as follows:

	Trade receivables HK$	Other receivables HK$	Finance lease receivables HK$	Total HK$
As at 1 January 2018	171,731	15,192,409	–	15,364,140
Increase in loss allowance recognised in profit or loss during the year	1,827,020	–	–	1,827,020
Reversal of loss allowance	–	(1,838,323)	–	(1,838,323)
As at 31 December 2018 and 1 January 2019	1,998,751	13,354,086	–	15,352,837
Increase in loss allowance recognised in profit or loss during the year	3,815,286	1,438,898	5,987,870	11,242,054
As at 31 December 2019	5,814,037	14,792,984	5,987,870	26,594,891

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(b) Liquidity risk

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

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

As at 31 December 2019

	Weighted average effective interest rate %	On demand or less than 1 year HK$	Over 1 year HK$	Total undiscounted cash flows HK$	Carrying amount HK$
Non-derivative financial liabilities					
Trade and bills payables and other payables	–	450,881,287	144,331	451,025,618	451,025,618
Lease liabilities	3.42	9,649,336	17,301,105	26,950,441	25,528,431
Borrowings	5.39	514,844,917	–	514,844,917	487,049,413
Convertible bonds	6.97	300,000,000	143,582,501	443,582,501	392,820,659
		1,275,375,540	161,027,937	1,436,403,477	1,356,424,121

As at 31 December 2018

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

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For the year ended 31 December 2019

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

(b) Liquidity risk *(Continued)*

The following table summaries the maturity analysis of bank borrowings with repayable on demand clause based on breach of loan covenants as stated in note 36 and agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates. Taking into account the Group's financial position and negotiation with the bank for the waiver, the Directors of the Company do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The Directors of the Company believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – bank borrowings subject to a repayment on demand clause based on scheduled repayments	
	Within one year	**More than one year but less than two years**
	HK$	HK$
As at 31 December 2019	13,146,788	313,282,709

(c) Currency risk

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

(d) Interest rate risk

(i) Exposure to interest rate risk

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

(ii) Sensitivity analysis

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$2,782,126 (2018: HK$220,394). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(e) Fair values

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

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

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

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

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

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

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

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

Fair value hierarchy

	Fair value as at			**Valuation**
	31 December 2019	31 December 2018	**Fair value hierarchy**	**techniques and key inputs**
Financial assets				
Financial assets at FVTOCI – Unlisted equity investments	**68,513,470**	111,730,017	Level 3	Income approach – discounted cash flow analysis
Financial assets at FVTOCI – Unlisted equity investments	**196,852,149**	202,886,070	Level 3	Cost approach

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

(e) Fair values *(Continued)*

Fair value measurements using significant unobservable inputs (level 3)

Specific valuation techniques used to value level 3 financial instruments include techniques such as income approach – discounted cash flow analysis and cost approach. There are no changes in valuation techniques during the year (2018: Nil).

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2019:

	Unlisted equity investments HK$
As at 1 January 2018	365,661,491
Additions	59,545,525
Fair value change of financial assets at FVTOCI	(100,700,755)
Exchange adjustment	(9,890,174)
As at 31 December 2018 and 1 January 2019	314,616,087
Fair value change of financial assets at FVTOCI	(48,308,189)
Exchange adjustment	(942,279)
As at 31 December 2019	265,365,619

The key unobservable assumptions used in the valuation of the unlisted equity investments are:

Valuation techniques	**Unobservable inputs**	**As at 31 December 2019**	As at 31 December 2018
Income approach – discounted cash flow Analysis	Discount rate	**9.44%-15.48%**	9.67%-18.03%
	Terminal growth rate	**3.00%**	3.00%
Cost approach	N/A	**N/A**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(e) Fair values *(Continued)*

During the years ended 31 December 2019 and 2018, there were no transfers of fair value measurement between Level 1 and Level 2, and there were no transfers into or out of Level 3 for both financial assets and financial liabilities.

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

	As at 31 December 2019	
	Carrying amount	**Fair value**
	HK$	**HK$**
Financial liabilities		
Convertible bonds	**392,820,659**	**395,951,857**

	As at 31 December 2018	
	Carrying amount	Fair value
	HK$	HK$
Financial liabilities		
Convertible bonds	387,725,664	449,205,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION

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

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

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

(a) ADAS and other automotive components – (i) sale of ADAS and other automotive components in the People's Republic of China ("PRC"); (ii) development, manufacture and sales of auto grade cellular modules in Europe, the US and Asia Pacific

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

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

For car-carried purifiers – sales of car-carried purifiers in the PRC, the management considered that it is an operating segment presented as discontinued operation. The segment information report below does not included any amounts from the discontinued operation during the year ended 31 December 2019. For details of the discontinued operation, please refer to note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(CONTINUED)*

The following is an analysis of the Group's revenue and results by reportable and operating segments which does not included any amounts from the discontinued operation:

	Continuing operations			
	ADAS and other automotive components HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2019				
Segment revenue	733,179,156	–	48,622,207	781,801,363
Segment results	(196,916,754)	(58,351)	5,211,879	(191,763,226)
Share of loss of a joint venture	–	–	–	(1,096,586)
Loss on disposal of property, plant and equipment	(325,595)	–	(797,341)	(1,122,936)
Loss on disposal of subsidiaries, net (Note 43(a) and (b))	–	–	–	(10,288,159)
Allowance under expected credit loss model, net of reversal				(11,242,054)
Unallocated corporate expense				(30,847,188)
Unallocated corporate income				1,852,520
Finance costs				(66,616,412)
Loss before taxation				(311,124,041)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(CONTINUED)*

	Continuing operations			
	ADAS and other automotive components HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2018				
Segment revenue	328,004,405	2,029,362	127,203,446	457,237,213
Segment results	(203,415)	(14,613)	15,418,594	15,200,566
Share of loss of an associate	–	–	–	(1,587,696)
Share of loss of a joint venture	–	–	–	(1,868,704)
Loss on disposal of property, plant and equipment	–	–	–	(508,652)
Impairment loss recognised on amount due from an associate	–	–	–	(5,119,061)
Allowance under expected credit loss model, net of reversal				11,303
Unallocated corporate expense				(79,834,574)
Unallocated corporate income				1,779,733
Finance costs				(53,969,334)
Loss before taxation				(125,896,419)

Segment results represent the profit earned by or loss from each segment without allocation of unallocated corporate expense, unallocated corporate income, share of loss of an associate, share of loss of a joint venture, loss on disposal of property, plant and equipment, loss on disposal of subsidiaries, impairment loss recognised on amount due from an associate, allowance under expected credit loss model, net of reversal and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(CONTINUED)*

	ADAS and other automotive components HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2019				
Segment assets	**1,513,981,074**	**5,307,803**	**132,201,921**	**1,651,490,798**
Segment liabilities	**900,559,473**	**3,308**	**23,543,358**	**924,106,139**

	ADAS and other automotive components HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Total HK$
Year ended 31 December 2018				
Segment assets	453,572,896	5,473,393	173,391,131	632,437,420
Segment liabilities	240,755,451	9,999	32,733,706	273,499,156

Reconciliation of reportable segments' assets and liabilities:

	2019 HK$	2018 HK$
Assets		
Total assets of reportable segments	**1,651,490,798**	632,437,420
Unallocated and other corporate assets:		
Prepayments and other receivables	**90,799,596**	131,861,729
Financial assets at fair value through other comprehensive income	**265,365,619**	314,616,087
Cash and cash equivalents	**249,900**	75,105,586
Office equipment and motor vehicles	**2,832,717**	2,894,590
Interest in a joint venture	**–**	1,096,586
Assets of a disposal group classified as held for sale	**82,678,114**	80,597,340
Consolidated total assets	**2,093,416,744**	1,238,609,338
Liabilities		
Total liabilities of reportable segments	**924,106,139**	273,499,156
Unallocated and other corporate liabilities:		
Other payables	**43,360,780**	78,303,246
Borrowings	**22,094,441**	46,241,870
Convertible bonds	**392,820,659**	387,725,664
Deferred tax liabilities	**110,186,453**	4,450,766
Current tax payable	**8,688**	969,505
Consolidated total liabilities	**1,492,577,160**	791,190,207

6. SEGMENT INFORMATION *(CONTINUED)*

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

- all assets are allocated to operating segments other than financial assets at fair value through other comprehensive income and other unallocated corporate assets (mainly comprising prepayments and other receivables, cash and cash equivalents, office equipment and motor vehicles, assets of a disposal group classified as held for sale and interests in a joint venture); and

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

Other segment information

Continuing operations	ADAS and other automotive components HK$	Car trading HK$	Finance lease of motor vehicles and equipment HK$	Unallocated HK$	Total HK$
Year ended 31 December 2019					
Capital expenditure (Note (a))	**94,619,724**	**–**	**–**	**57,833**	**94,677,557**
Depreciation and amortisation	**86,670,178**	**–**	**376,322**	**1,486,814**	**88,533,314**
Taxation	**(10,539,591)**	**–**	**1,382,328**	**(2,681,833)**	**(11,839,096)**
Year ended 31 December 2018					
Capital expenditure (Note (b))	51,712,103	–	1,652,819	30,194,290	83,559,212
Depreciation and amortisation	22,420,169	–	333,396	1,220,627	23,974,192
Taxation	(55,480)	–	(1,651,421)	98,595	(1,608,306)

Note:

(a) During the year ended 31 December 2019, capital expenditure consists of additions of property, plant and equipment, right-of-use assets, intangible assets and construction in progress.

(b) During the year ended 31 December 2018, capital expenditure consists of additions of property, plant and equipment, intangible assets and construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. SEGMENT INFORMATION *(CONTINUED)*

Information about geographical areas

During the year ended 31 December 2019, the Group was mainly operating in the PRC, Europe, the US and Asia Pacific (2018: the PRC). The Group's revenue from external customers based on the location of the operation by geographical location are presented below:

	Continuing operations							
	ADAS and other automotive components		Car trading		Finance lease of motor vehicles and equipment		Total	
	2019 HK$	2018 HK$	**2019 HK$**	2018 HK$	**2019 HK$**	2018 HK$	**2019 HK$**	2018 HK$
Revenue								
The PRC	**274,554,663**	328,004,405	**–**	2,029,362	**48,622,207**	127,203,446	**323,176,870**	457,237,213
Europe, the US and Asia Pacific	**458,624,493**	–	**–**	–	**–**	–	**458,624,493**	–
	733,179,156	328,004,405	**–**	2,029,362	**48,622,207**	127,203,446	**781,801,363**	457,237,213
Non-current assets								
The PRC	**203,874,819**	214,351,423	**–**	–	**12,064,939**	24,688,077	**215,939,758**	239,039,500
Europe, the US and Asia Pacific	**908,711,266**	–	**–**	–	**–**	–	**908,711,266**	–
	1,112,586,085	214,351,423	**–**	–	**12,064,939**	24,688,077	**1,124,651,024**	239,039,500

Information about major customers

For the year ended 31 December 2019, revenue generated from two (2018: two) customer(s) of the Group's ADAS and other automotive components business amounting to HK$317,635,991 (2018: HK$274,057,858) has individually accounted for over 10% of the Group's total revenue. Save as disclosed, no other single customers contributed 10% or more to the Group's revenue for both years.

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

	2019 HK$	2018 HK$
Customer A (note)	**–**	153,315,810
Customer B (note)	**186,102,014**	–
Customer C (note)	**–**	120,742,048
Customer D (note)	**131,533,977**	–

Note: The revenue contributed by Customer A and C during the year ended 31 December 2019 and Customer B and D during the year ended 31 December 2018 was less than 10% of the Group's revenue.

7. REVENUE

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

Revenue recognised during the year is analysed as follows:

	2019	2018
	HK$	HK$
Continuing operations:		
Revenue from contracts with customers		
Recognised at a point in time:		
Sales of ADAS and other automotive components	**733,179,156**	328,004,405
Sales of cars	**–**	2,029,362
	733,179,156	330,033,767
Revenue from other source:		
Finance lease income	**48,622,207**	127,203,446
	781,801,363	457,237,213

All revenue contracts are for period of one year or less. As permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

8. OTHER REVENUE

	2019	2018
	HK$	HK$
Continuing operations:		
Bank interest income	**754,101**	1,893,167
Subsidy income (Note)	**958,101**	871,400
Sundry income	**1,963,153**	491,566
Recharge income from customers	**7,109,635**	–
	10,784,990	3,256,133

Note:

For the years ended 31 December 2019 and 2018, subsidy income mainly represents the reward for innovative and high-end technology enterprise in the PRC. Subsidy income received by the Group is recognised in the consolidated statement of profit or loss and other comprehensive income when received and no specific conditions have been required to fulfill. The subsidy income recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to those subsidy income.

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For the year ended 31 December 2019

9. OTHER GAINS AND LOSSES

	2019 HK$	2018 HK$
Continuing operations:		
Net foreign exchange loss	**7,666,241**	3,481,318
Loss on disposal of property, plant and equipment	**1,122,936**	508,652
Impairment loss on interest in associate	**–**	5,119,061
Loss/(gain) on disposal of subsidiaries, net	**10,288,159**	(95,776)
Others	**491,358**	–
	19,568,694	9,013,255

10. RESEARCH AND DEVELOPMENT EXPENSES

	2019 HK$	2018 HK$
Research and development expenses incurred	**103,377,165**	10,095,011

11. FINANCE COSTS

	2019 HK$	2018 HK$
Continuing operations:		
Interest expenses on bank loans	**23,788,054**	4,489,287
Interest expenses on other loans	**7,846,014**	11,387,882
Imputed interest expenses on lease liabilities	**873,803**	–
Imputed interest expenses on convertible bonds	**34,108,541**	38,092,165
	66,616,412	53,969,334

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	2019 HK$	2018 HK$
Continuing operations:		
Auditors' remuneration		
– Audit service	**1,200,000**	900,000
– Non-audit service	**48,998**	680,000
Staff costs (including directors' emoluments)		
– Salaries, wages and bonuses	**56,039,687**	34,196,745
– Retirement scheme contributions and welfare	**8,905,890**	3,754,300
– Share-based payments	**977,071**	2,435,003
Depreciation of property, plant and equipment	**21,754,892**	5,366,400
Depreciation of right-of-use assets	**7,325,964**	–
Amortisation of intangible assets	**59,452,458**	18,607,792
Operating lease charges in respect of rented properties	**–**	6,887,356
Expenses relating to short term lease and other leases with unit remaining lease term on or before 31 December 2019	**5,995,944**	–
Cost of inventories	**507,569,989**	86,307,755

13. TAXATION

(a) Income tax recognised in profit or loss:

	2019 HK$	2018 HK$
Continuing operations:		
Current tax:		
PRC Enterprise Income Tax	**2,634,958**	1,706,901
Hong Kong Profits Tax	**(19,366)**	–
Over-provision in prior year (other than Hong Kong and PRC)	**(916,112)**	–
Deferred tax:		
Current year (Note 35(b) and (c))	**(13,538,576)**	(3,315,207)
Taxation	**(11,839,096)**	(1,608,306)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. TAXATION *(CONTINUED)*

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

PRC Enterprise Income Tax

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

	Note	**2019**	2018
Shanghai Nanlang Finance Lease Limited ("Shanghai Nanlang")	(i)	**25%**	25%
Hunan Delu Car Trading Limited ("Hunan Delu")	(i)	**25%**	25%
Suzhou Yadu Cloud Technology Co., Limited ("Yadu Cloud")	(i)	**25%**	25%
Suzhou Zhihua Automobile Electronic Co., Ltd ("Suzhou Zhihua")	(ii)	**15%**	15%
Beijing Yinwo Automobile Technology Company Limited ("Beijing Yinwo")	(i)	**25%**	25%
Qidi Zhixing Technology (Beijing) Limited ("Qidi Zhixing")	(i)	**25%**	25%
TUS Yunzhi Technology (Beijing) Limited ("TUS Yunzhi")	(i)	**25%**	25%
TUS Cloud Control (Beijing) Technology Limited ("TUS Cloud Control")	(i)	**25%**	25%

Notes:

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

(ii) Suzhou Zhihua is "encouraged hi-tech enterprise" and entitled to reduce the tax rate to 15%.

13. TAXATION *(CONTINUED)*

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

PRC Enterprise Income Tax (Continued)

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

Hong Kong Profit Tax

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rate regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rate regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2019 and 2018.

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

Other Jurisdictions

Taxation of overseas subsidiaries (other than Hong Kong and PRC) are calculated at the applicable rates prevailing in the jurisdictions in which the subsidiary operates.

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

	2019 **HK$**	2018 HK$
Continuing operations:		
Loss before taxation	**(311,124,041)**	(125,896,419)
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(53,925,470)**	(21,201,128)
Tax effect of non-deductible expenses	**21,498,763**	673,964
Tax effect of non-taxable revenue	**(155,562)**	(566,391)
Tax effect of unrecognised temporary differences and tax losses	**21,659,285**	19,485,249
Over-provision in prior year	**(916,112)**	–
Taxation	**(11,839,096)**	(1,608,306)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. DIRECTORS' REMUNERATION

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

Year ended 31 December 2019

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Sub-total HK$	Share-based payments HK$	Total HK$
Executive directors							
Mr. Ma Chi Kong Karl	–	1,200,000	–	18,000	1,218,000	–	1,218,000
Mr. Du Peng	–	1,200,000	–	18,000	1,218,000	441,012	1,659,012
Mr. Shen Xiao	–	3,225,000	–	18,000	3,243,000	441,012	3,684,012
Non-executive directors							
Mr. Tsang Ling Biu, Gilbert	360,000	–	–	–	360,000	–	360,000
Mr. Qin Zhiguang (resigned with effect from 1 April 2020)	360,000	–	–	–	360,000	–	360,000
Mr. Hu Bo (appointed on 29 April 2019)	242,000	–	–	–	242,000	–	242,000
Independent non-executive directors							
Hon. Quat Elizabeth *(JP)*	360,000	–	–	–	360,000	–	360,000
Mr. Poon Chiu Kwok	360,000	–	–	–	360,000	–	360,000
Mr. Wong Yuk Lun, Alan	180,000	–	–	9,000	189,000	–	189,000
Total	1,862,000	5,625,000	–	63,000	7,550,000	882,024	8,432,024

14. DIRECTORS' REMUNERATION *(CONTINUED)*

Year ended 31 December 2018

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Sub-total HK$	Share-based payments HK$	Total HK$
Executive directors							
Mr. Ma Chi Kong Karl	–	1,200,000	–	18,000	1,218,000	–	1,218,000
Mr. Du Peng	–	1,200,000	–	18,000	1,218,000	1,063,375	2,281,375
Mr. Shen Xiao	–	3,206,250	–	18,000	3,224,250	1,063,375	4,287,625
Mr. Woo Kar Tung Raymond (resigned on 7 June 2018)	–	1,126,754	–	9,000	1,135,754	–	1,135,754
Ms. Cheung Joanna Wai Sze (resigned on 23 July 2018)	–	674,194	–	10,500	684,694	–	684,694
Non-executive directors							
Mr. Tsang Ling Biu, Gilbert	360,000	–	–	–	360,000	–	360,000
Mr. Qin Zhiguang (appointed on 27 March 2018)	274,839	–	–	–	274,839	–	274,839
Mr. Yang Ming (resigned on 24 June 2018)	–	64,516	–	1,500	66,016	–	66,016
Independent non-executive directors							
Hon. Quat Elizabeth *(JP)*	360,000	–	–	–	360,000	–	360,000
Mr. Chen Jin (resigned on 24 June 2018)	174,000	–	–	–	174,000	–	174,000
Mr. Poon Chiu Kwok	360,000	–	–	–	360,000	–	360,000
Mr. Wong Yuk Lun, Alan	180,000	–	–	9,000	189,000	–	189,000
Total	1,708,839	7,471,714	–	84,000	9,264,553	2,126,750	11,391,303

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15. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group, included three (2018: four) directors whose emoluments are disclosed in note 14. The detail of the emoluments in respect of the remaining two (2018: one) individual who is neither a director nor chief executive of the Company for the years ended 31 December 2019 and 2018 are as follows:

	2019 **HK$**	2018 HK$
Salaries and other emoluments	**2,468,008**	936,304
Retirement scheme contributions	**31,725**	18,000
	2,499,733	954,304

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

	2019 **Number of individuals**	2018 Number of individuals
HK$500,001 – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**2**	–
HK$1,500,001 – HK$2,000,000	**–**	–

16. DIVIDENDS

The directors of the Company do not recommend the payment of any dividends in respect of the year ended 31 December 2019 (2018: Nil).

17. LOSS PER SHARE

(a) Basic loss per share

Continuing and discontinued operations

The calculation of basic loss per share from continuing and discontinued operations for the year ended 31 December 2019 is based on the loss for the year attributable to owners of the Company from continuing and discontinued operations of HK$299,530,819 (2018: HK$122,384,844) and the weighted average of 1,929,699,250 (2018: 1,047,225,984) ordinary shares in issue during the year.

Continuing operations

The calculation of the basic loss per share for the year ended 31 December 2019 from continuing operations are based on the loss for the year attributable to ordinary equity holders of the Company from continuing operations of HK$298,492,195 (2018: HK$120,252,473) and the weighted average number of ordinary shares of 1,929,699,250 (2018: 1,047,225,984) during the year.

Discontinued operation

The calculation of the basic loss per share for the year ended 31 December 2019 from discontinued operation are based on loss for the year attributable to ordinary equity holders of the Company from discontinued operations of HK$1,038,624 (2018: HK$2,132,371) and the weighted average number of ordinary shares of 1,929,699,250 (2018: 1,047,225,984) during the year.

(b) Diluted loss per share

Continuing and discontinued operations

During the years ended 31 December 2019 and 2018, the computation of diluted loss per share does not include the Company's outstanding share options and outstanding convertible bonds because the effect was anti-dilutive. Therefore, the diluted loss per share of the Company is the same as the basic loss per share.

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For the year ended 31 December 2019

18. FIXED ASSETS

	Leasehold improvements HK$	Machinery and equipment HK$	Motor vehicles HK$	Office equipment HK$	Total HK$
Cost:					
As at 1 January 2018	2,759,655	17,326,574	3,621,016	5,439,127	29,146,372
Additions	2,405,665	7,192,470	602,749	1,925,318	12,126,202
Disposal	(962,147)	–	–	–	(962,147)
Disposal of subsidiaries	–	(1,607,613)	–	–	(1,607,613)
Exchange alignment	(85,214)	(819,518)	(43,158)	(313,725)	(1,261,615)
As at 31 December 2018 and 1 January 2019	4,117,959	22,091,913	4,180,607	7,050,720	37,441,199
Additions	236,446	7,702,284	672,635	1,563,410	10,174,775
Transfer from construction in progress (Note 20)	834,879	–	–	–	834,879
Disposal	(1,284,562)	(1,550,567)	(261,100)	(5,890)	(3,102,119)
Acquisition of subsidiaries (Note 42)	3,752	69,048,970	–	1,220,377	70,273,099
Disposal of subsidiary (Note 43(a))	(31,395)	(983,179)	(897,387)	(334,481)	(2,246,442)
Exchange alignment	159,892	2,675,138	(32,107)	(3,380,179)	(577,256)
As at 31 December 2019	4,036,971	98,984,559	3,662,648	6,113,957	112,798,135
Accumulated depreciation:					
As at 1 January 2018	489,916	4,646,484	1,154,577	2,201,138	8,492,115
Charge for the year	915,074	2,873,079	413,713	1,164,534	5,366,400
Written back on disposal	(445,070)	–	–	–	(445,070)
Disposal of subsidiary	–	(1,607,613)	–	–	(1,607,613)
Exchange alignment	(29,229)	(215,229)	(31,400)	(139,244)	(415,102)
As at 31 December 2018 and 1 January 2019	930,691	5,696,721	1,536,890	3,226,428	11,390,730
Charge for the year	973,148	19,364,046	507,904	909,794	21,754,892
Written back on disposal	–	(480,534)	(138,309)	(5,596)	(624,439)
Disposal of subsidiary (Note 43(a))	(1,052)	(195,360)	(149,541)	(21,733)	(367,686)
Exchange alignment	192,491	1,573,780	(12,087)	(1,724,258)	29,926
As at 31 December 2019	2,095,278	25,958,653	1,744,857	2,384,635	32,183,423
Carrying amounts:					
As at 31 December 2019	**1,941,693**	**73,025,906**	**1,917,791**	**3,729,322**	**80,614,712**
As at 31 December 2018	3,187,268	16,395,192	2,643,717	3,824,292	26,050,469

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19. RIGHT-OF-USE ASSETS

	Office premises HK$	Motor vehicles HK$	Office equipment HK$	Total HK$
Cost:				
As at 31 December 2018 (Audited)	–	–	–	–
Impact on initial application of HKFRS 16 (Note 2)	4,216,537	–	–	4,216,537
As at 1 January 2019 (Restated)	4,216,537	–	–	4,216,537
Acquisition of subsidiaries (Note 42)	13,480,381	2,461,950	–	15,942,331
Additions	6,987,002	4,997,068	246,696	12,230,766
Exchange adjustment	(69,070)	–	–	(69,070)
As at 31 December 2019	24,614,850	7,459,018	246,696	32,320,564
Accumulated depreciation:				
As at 31 December 2018 (Audited)	–	–	–	–
Impact on initial application of HKFRS 16	–	–	–	–
As at 1 January 2019 (Restated)	–	–	–	–
Charge for the year	5,814,897	1,445,260	65,807	7,325,964
Exchange adjustment	(21,371)	–	–	(21,371)
As at 31 December 2019	5,793,526	1,445,260	65,807	7,304,593
Carrying amounts:				
As at 31 December 2019	**18,821,324**	**6,013,758**	**180,889**	**25,015,971**
As at 1 January 2019	4,216,537	–	–	4,216,537

20. CONSTRUCTION IN PROGRESS

	2019 HK$	2018 HK$
As at 1 January	**8,186,268**	2,635,365
Additions	**5,280,637**	5,687,547
Transfer to property, plant and equipment (Note 18)	**(834,879)**	–
Exchange alignment	**(27,905)**	(136,644)
As at 31 December	**12,604,121**	8,186,268

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21. INTANGIBLE ASSETS

	Development costs HK$	Patents HK$	Exclusive right HK$	Customer relationship HK$	Brand name HK$	Know-how HK$	Total HK$
Cost:							
As at 1 January 2018	45,075,290	76,946,077	42,026,040	–	–	–	164,047,407
Additions	65,745,463	–	–	–	–	–	65,745,463
Exchange alignment	(4,397,144)	(3,989,681)	(2,179,065)	–	–	–	(10,565,890)
Disposal of subsidiary	–	(72,956,396)	–	–	–	–	(72,956,396)
As at 31 December 2018 and 1 January 2019	106,423,609	–	39,846,975	–	–	–	146,270,584
Additions	66,991,379	–	–	–	–	–	66,991,379
Exchange alignment	(1,881,550)	–	(306,687)	–	–	–	(2,188,237)
Acquisition of subsidiaries (Note 42)	–	–	–	15,472,350	93,022,500	274,490,950	382,985,800
Assets classified as held for sales (Note 41)	(42,738,120)	–	(39,540,288)	–	–	–	(82,278,408)
As at 31 December 2019	**128,795,318**	**–**	**–**	**15,472,350**	**93,022,500**	**274,490,950**	**511,781,118**
Accumulated amortisation and impairment:							
As at 1 January 2018	45,075,290	76,946,077	1,400,868	–	–	–	123,422,235
Amortisation charge for the year	14,494,205	–	4,113,587	–	–	–	18,607,792
Exchange alignment	(2,791,311)	(3,989,681)	(201,525)	–	–	–	(6,982,517)
Disposal of subsidiary	–	(72,956,396)	–	–	–	–	(72,956,396)
As at 31 December 2018 and 1 January 2019	56,778,184	–	5,312,930	–	–	–	62,091,114
Amortisation charge for the year	15,473,417	–	1,977,014	1,611,703	9,689,844	32,677,494	61,429,472
Exchange alignment	(410,799)	–	311,328	–	–	–	(99,471)
Assets classified as held for sales (Note 41)	(42,738,120)	–	(7,601,272)	–	–	–	(50,339,392)
As at 31 December 2019	**29,102,682**	**–**	**–**	**1,611,703**	**9,689,844**	**32,677,494**	**73,081,723**
Carrying amounts:							
As at 31 December 2019	**99,692,636**	**–**	**–**	**13,860,647**	**83,332,656**	**241,813,456**	**438,699,395**
As at 31 December 2018	49,645,425	–	34,534,045	–	–	–	84,179,470

21. INTANGIBLE ASSETS *(CONTINUED)*

Development costs represent costs incurred to develop ADAS products and other automotive components.

During the year ended 31 December 2019, the research and development expenses approximately of HK$67.0 million (2018: approximately of HK$65.7 million) was capitalised in development costs under intangible assets.

Exclusive right represents the right of use of the trademarks and a patent which acquired by Yadu Cloud for car-carried purifiers business during the year ended 31 December 2018. The directors consider that the estimated useful life of the exclusive right to be 9 years. The exclusive right was reclassified as disposal group classified as held for sale.

Know-how represents technical knowledge using 2G to 5G to develop automotive cellular module products which acquired by Titan Group for auto grade cellular module business during the year ended 31 December 2019. The directors consider that the estimated useful life of the know-how to be 7 years.

Brand name represents the reputation built after years of operation as the Titan Group is a well-know automotive-grade wireless connectivity modules provider, that has gained certain market share activity as global automotive communication module suppliers.

Customer relationship represents customer portfolio and relationship form a major part of the business as Titan Group has been serving several large automotive original equipment manufacturers in different regions such as Continental, Bosch, Tesla etc.

Amortisation charge for the year ended 31 December 2019 of HK$71,113 (2018: HK$158,322) included in "research and development expenses".

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22. GOODWILL

	2019	2018
	HK$	HK$
As at 1 January	**164,772,765**	164,772,765
Additional amount recognised from acquisition of subsidiaries during the year (Note 42)	**486,556,206**	–
As at 31 December	**651,328,971**	164,772,765

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

Impairment tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill has been allocated to the following CGUs. The carrying amount of goodwill (net of impairment loss) as at 31 December 2019 and 2018 are allocated as follows:

	2019	2018
	HK$	HK$
Development, production and sales of ADAS and other automotive components	**161,392,666**	161,392,666
Development, manufacture and sales of auto grade cellular module (Note 42)	**486,556,206**	–
Finance lease of motor vehicles and equipment	**3,380,099**	3,380,099
	651,328,971	164,772,765

Development, production and sales of ADAS products

The recoverable amount of this CGU is determined by reference to the income approach, which is based on discounted cash flow based on the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 12.33% (2018: 12.75%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% (2018: 3%) growth rate.

Development, manufacture and sales of auto grade cellular module

The recoverable amount of this CGU is determined by reference to the income approach, which is based on discounted cash flow based on the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 19.18% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% growth rate.

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For the year ended 31 December 2019

22. GOODWILL *(CONTINUED)*

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

Finance lease of motor vehicles and equipment

The recoverable amount of this CGU is determined by reference to the income approach, which is based on discounted cash flow based on the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 8.45% (2018: 9.62%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% (2018: 3%) growth rate.

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

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

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

- Market trends and conditions where the CGUs operate will not deviate significantly from the economic forecasts in general;

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

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

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

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

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

As the recoverable amounts of the CGUs is higher than the carrying amounts, no impairment loss on goodwill of these CGUs are recognised in the consolidated statement of profit or loss and other comprehensive income.

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23. PARTICULARS OF SUBSIDIARIES

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

Name of Company	Place of incorporation/ registration/ operations	Class of shares held	Paid up/ registration capital	Proportion of ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2019 %	2018 %	2019 %	2018 %	
Sunlight Management Limited	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Administration and management service to the Group
Splendid Best International Limited	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Car trading in HK
Shanghai Nanlang	The PRC, limited liability company	Registered and paid up capital	RMB114,002,987	–	–	**51**	51	Provision of financing service for leasing motor vehicles and equipment in the PRC
Hunan Delu	The PRC, limited liability company	Registered and paid up capital	RMB5,000,000	–	–	**100**	100	Car trading in the PRC
Suzhou Zhihua (note (i))	The PRC, limited liability company	Registered and paid up capital	RMB38,700,000	–	–	**44.8**	44.8	Development, production and sale of ADAS products in the PRC
Beijing Yinwo (note (i))	The PRC, limited liability company	Registered and paid up capital	RMB1,000,000	–	–	**44.8**	44.8	Development, production and sale of automotive electronics products in the PRC
Yadu Cloud (note (ii))	The PRC, limited liability company	Registered and paid up capital	RMB80,000,000	–	–	**51**	51	Sale of car-carried purifiers in the PRC

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For the year ended 31 December 2019

23. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

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

Name of Company	Place of incorporation/ registration/ operations	Class of shares held	Paid up/ registration capital	Proportion of ownership interest held by the Company Directly 2019 %	Directly 2018 %	Indirectly 2019 %	Indirectly 2018 %	Principal activities
Qidi Zhixing	The PRC, limited liability company	Registered and paid up capital	RMB6,760,495	–	–	**100**	100	Administration and management service to the Group
TUS Cloud Control	The PRC, limited liability company	Registered and paid up capital	Nil	–	–	**70**	70	Development of the technologies for the intelligent and connected vehicles cloud control platform
Titan Automotive Solutions N.V. (note (iii))	Belgium, limited liability company	Registered and paid up capital	USD10,464,723	–	–	**100**	–	Development, manufacture and sales of auto grade cellular module
Titan Automotive Solutions S.A.R.L (note (iii))	France, limited liability company	Registered and paid up capital	Euro107,874	–	–	**100**	–	Development and presale of products

Notes:

(i) During the year ended 31 December 2018, the Group gained 8.2% additional equity interest of Suzhou Zhihua. As a result of this transaction, the Group recognised an decrease in non-controlling interests of approximately HK$5,163,755 and a decrease in other reserve in equity of approximately HK$15,395,283.

(ii) The Company was discontinued during the year ended 31 December 2019.

(iii) The Companies were acquired during the year ended 31 December 2019.

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

Name of company	Place of incorporation/ registration/ operations	Proportion of ownership interests held by non-controlling interests 2019 %	2018 %	Proportion of voting rights held by non-controlling interests 2019 %	2018 %	(Loss)/profit allocated to non-controlling interests 2019 HK$	2018 HK$	Accumulated non-controlling interests 2019 HK$	2018 HK$
Shanghai Nanlang	The PRC	**49.0**	49.0	**49.0**	49.0	**1,485,783**	5,755,679	**70,466,819**	70,405,802
Suzhou Zhihua	The PRC	**55.2**	55.2	**55.2**	55.2	**3,447,912**	(989,841)	**34,656,884**	37,580,147

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23. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

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

Shanghai Nanlang

	2019	2018
	HK$	HK$
Current assets	**149,701,253**	148,725,824
Non-current assets	**17,651,939**	27,000,403
Current liabilities	**(23,543,358)**	(32,040,917)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**73,343,015**	73,279,508
Non-controlling interests	**70,466,819**	70,405,802
Revenue	**48,622,207**	127,203,446
Expenses	**(45,589,996)**	(115,457,162)
Profit for the year	**3,032,211**	11,746,284
Profit attributable to owners of the Company	**1,546,428**	5,990,605
Profit attributable to non-controlling interests	**1,485,783**	5,755,679
Profit for the year	**3,032,211**	11,746,284
Total comprehensive profit attributable to owners of the Company	**63,507**	2,147,547
Total comprehensive profit attributable to non-controlling interests	**61,017**	2,063,329
Total comprehensive profit for the year	**124,524**	4,210,876
Net cash inflow from operating activities	**18,050,083**	25,017,518
Net cash inflow/(outflow) from investing activities	**1,883,629**	(1,343,203)
Net cash outflow from financing activities	**–**	(10,426,096)
Net cash inflow	**19,933,712**	13,248,219

23. PARTICULARS OF SUBSIDIARIES *(CONTINUED)*

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

Suzhou Zhihua

	2019 HK$	2018 HK$
Current assets	**213,263,839**	239,964,460
Non-current assets	**95,216,205**	55,756,793
Current liabilities	**(245,551,503)**	(238,127,852)
Non-current liabilities	**(144,331)**	–
Equity attributable to owners of the Company	**28,127,326**	20,013,254
Non-controlling interests	**34,656,884**	37,580,147
Revenue	**270,696,881**	328,004,405
Expenses	**(264,450,664)**	(329,796,095)
Profit/(loss) for the year	**6,246,217**	(1,791,690)
Profit/(loss) attributable to owners of the Company	**2,798,305**	(801,849)
Profit/(loss) attributable to non-controlling interests	**3,447,912**	(989,841)
Profit/(loss) for the year	**6,246,217**	(1,791,690)
Total comprehensive loss attributable to owners of the Company	**(2,372,503)**	(3,158,211)
Total comprehensive loss attributable to non-controlling interests	**(2,923,263)**	(2,558,401)
Total comprehensive loss for the year	**(5,295,766)**	(5,716,612)
Net cash inflow from operating activities	**78,656,478**	29,398,985
Net cash outflow from investing activities	**(39,281,902)**	(36,045,060)
Net cash (outflow)/inflow from financing activities	**(37,912,935)**	19,032,295
Net cash inflow	**1,461,641**	12,386,220

Significant restrictions

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

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24. INTERESTS IN ASSOCIATES

	2018 HK$
Cost of investment in an associate (unlisted)	10,000,000
Amount due from an associate	–
Share of post-acquisition loss and other comprehensive income, net of dividend received	(4,880,939)
Impairment loss recognised on amount due from an associate	(5,119,061)
	–

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

Name of entity	Place of incorporation	Principal place of business	Class of shares held	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
				2019 %	2018 %	**2019 %**	2018 %	
Tuspark Global Limited ("Tuspark Global")	British Virgin Islands	HK	Ordinary	**28.57%**	28.57%	**28.57%**	28.57%	Investment holdings

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

All of these associates are accounted for using the equity method in the consolidated financial statements.

The followings table illustrates the aggregated financial information of the Group's associates that are not individually material:

	2018 HK$
Current assets	4,300,167
Non-current assets	25,209,290
Current liabilities	(41,681,649)
Non-current liabilities	(460,533)
Revenue	1,204,357
Loss for the year	(5,557,213)
Other comprehensive income for the year	343,022
Total comprehensive loss for the year	(5,214,211)

24. INTERESTS IN ASSOCIATES *(CONTINUED)*

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

	2018 HK$
Net liabilities of Tuspark Global	(12,632,725)
Proportion of ownership interests in Tuspark Global held by the Group	28.57%
Group's share of net liabilities of Tuspark Global	(3,609,169)
Goodwill	8,728,230
Impairment loss recognised on investment in associate	(5,119,061)
Carrying amount of the Group's interest in Tuspark Global	–

25. INTEREST IN A JOINT VENTURE

	2019 **HK$**	2018 HK$
Cost of investment in a joint venture	**1,096,586**	3,880,501
Share of post acquisition loss and other comprehensive income of a joint venture	**(1,096,586)**	(2,783,915)
Share of net assets	**–**	1,096,586

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

Name	Place of incorporation	Principal place of business	Proportion of ownership interest held by the Group 2019	2018	Proportion of voting rights held by the Group 2019	2018	Principal activities
TUS Star International Management Limited ("TUS Star")	British Virgin Islands	The United States	**50%**	50%	**50%**	50%	Incubator for the motor vehicle industry

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amount shown in the joint venture's financial statements prepared under generally accepted accounting principles in the United States.

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25. INTEREST IN A JOINT VENTURE *(CONTINUED)*

The joint venture is accounted for using the equity method in these consolidated financial statements.

	2018 HK$
Current assets	1,843,838
Non-current assets	375,256
Current liabilities	(25,922)
Loss for the year	(3,737,409)
Other comprehensive income for the year	28,493
Total comprehensive loss for the year	(3,708,916)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2018 HK$
Net assets of TUS Star	2,193,172
Proportion of ownership interests in TUS Star held by the Group	50%
Group's share of net assets of TUS Star	1,096,586
Goodwill	–
Carrying amount of the Group's interest in TUS Star	1,096,586

26. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$	2018 HK$
Financial asset at FVTOCI (Note (a)-(f))	**265,365,619**	314,616,087

During the year ended 31 December 2019, the fair value change in respect of the Group's financial assets at FVTOCI amounted to HK$48,308,189 (2018: HK$100,700,755).

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26. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(CONTINUED)*

Notes:

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

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

(c) On 3 November 2016, the Group entered into a sale and purchase agreement with Suzhou Qijun Investment Management Company Limited*（蘇州騏駿投資管理有限公司）for acquiring 14% of the entire issued share capital of Suzhou Ziguang Innovative Education Development Company Limited*（蘇州紫光創新教育發展有限公司）("Suzhou Ziguang", and together with its subsidiaries the "Suzhou Ziguang Group") at a consideration of approximately RMB126.8 million (equivalent to approximately HK$145.4 million). Among the various businesses operations, Suzhou Ziguang Group, through the west zone of Suzhou TUS Modern Science City（蘇州啟迪時尚科技城）, is primarily engaged in the research and development of new technology and the provision of innovation hubs by leasing office spaces to newly set-up companies in return for rental incomes.

(d) On 18 November 2017, TusStar Incubator Investment Ltd. ("TusStar"), of which Tus-Holdings Co., Ltd is the holding company, The Regents of the University of Michigan ("MICHIGAN") and the Company have entered a gap fund agreement in relation to the proposed establishment of the gap fund with a proposed size of up to USD1.0 million (equivalent to approximately HK$7.78 million), which will be principally engaged in advancing the commercialisation potential of MICHIGAN research discoveries. On 29 August 2018, the Company further invest of USD100,000 in the gap fund. As at 31 December 2019, USD200,000 (equivalent to approximately HK$1,556,000) (2018: USD200,000, equivalent to approximately HK$1,556,000) has been injected in the gap fund.

(e) Through the acquisition of Suzhou Zhihua Automobile Electronics Co., Ltd and Beijing Yinwo Automobile Technology Company Limited (collectively, "Suzhou Zhihua Group") during the year 2017, the Group has acquired the unlisted equity investments of HK$1,192,911 and HK$1,181,100 which represented 7.9% and 9.8% of the registered capital of two companies incorporated in the PRC respectively which are principally engaged in development, production and sale of automotive electronics products.

(f) On 9 March 2018, the Group entered into a sale and purchase agreement with an independent third party for acquiring 9.09% of the entire issued share capital of China Intelligent and Connected Vehicle (Beijing) Research Institute Co. Ltd at a consideration of RMB50.0 million (equivalent to approximately HK$58.8 million). China Intelligent and Connected Vehicle (Beijing) Research Institute Co. Ltd is the owner of the entire issued share capital of a company incorporated in PRC. China Intelligent and Connected Vehicle (Beijing) Research Institute Co. Ltd is principally engaged in development of technology, undertake research and development relevant to China to meet the needs of developing products and technical advisory services as well as providing consultation and testing services for China's intelligent connected vehicles industry.

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27. INVENTORIES

	2019 HK$	2018 HK$
Raw materials	**38,684,002**	36,056,756
Work-in-progress	**3,823,321**	3,947,310
Finished goods	**70,646,129**	51,763,432
	113,153,452	91,767,498

28. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2019 HK$	2018 HK$
Non-current:		
Deposit (Note (i))	–	45,539,400
Current:		
Trade receivables (Note (a))	**160,102,608**	106,881,719
Bills receivables	**6,016,293**	27,680,625
Deposits and prepayments	**5,311,521**	78,872,643
Other receivables	**91,532,877**	91,548,343
	262,963,299	304,983,330

Note:

(i) As at 31 December 2018, deposit represents refundable deposit paid for acquisition of car-carried purifiers business.

As at 31 December 2019, HK$3,875,565 (2018: HK$8,203,885) of bills receivables were pledged to the banks to issue bills payables as set out in note 31 to the consolidated financial statements. All the bills receivables will be matured within six months after the end of the reporting period. All the bills receivables are denominated in RMB.

As at 31 December 2019, included in other receivables mainly comprise amount due from a non-controlling interest shareholder amounting to HK$27,555,084 (2018: HK$28,114,887).

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

28. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

During the year ended 31 December 2019, loss allowance for expected credit losses on the trade receivables of HK$3,815,286 (2018: HK$1,827,020) and other receivables of HK$1,438,898 (2018: Reversal of allowance of HK$1,838,323) was recognised to profit or loss as detailed in note 5(a).

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

(a) Ageing analysis

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

	2019	2018
	HK$	HK$
Within 3 months	**144,608,943**	98,560,529
Over 3 months but less than 6 months	**8,990,625**	4,109,961
Over 6 months but less than 12 months	**814,953**	3,073,072
Over 12 months	**5,688,087**	1,138,157
	160,102,608	106,881,719

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

29. FINANCE LEASE RECEIVABLES

	2019	2018
	HK$	HK$
Current portion	**34,255,867**	76,729,195
Non-current portion	**8,693,237**	16,689,888
	42,949,104	93,419,083

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

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29. FINANCE LEASE RECEIVABLES *(CONTINUED)*

Amounts receivable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	**2019**	2018
Not later than 1 year	**37,006,148**	96,846,956	**34,255,867**	76,729,195
Later than 1 year not later than 5 years	**9,636,093**	21,030,629	**8,693,237**	16,689,888
	46,642,241	117,877,585	**42,949,104**	93,419,083
Less: unearned finance income	**(3,693,137)**	(24,458,502)	**–**	–
Present value of minimum lease payment receivables	**42,949,104**	93,419,083	**42,949,104**	93,419,083

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 11.3% per annum for the year ended 31 December 2019 (2018: 10.7%).

In the carrying amount of the above finance lease receivables as at 31 December 2019 was net of allowance of expected credit loss of HK$5,987,870 (2018: HK$Nil) as detailed in note 5 (a).

30. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

	2019	2018
	HK$	HK$
Pledged bank deposits with original maturity over 3 months (Note (i))	**3,883,581**	50,344,939
Cash and cash equivalents (Note (ii))	**113,418,336**	53,653,443
	117,301,917	103,998,382

Notes:

(i) The interest rates on the pledged bank deposits ranged from 0.35% to 1.30% (2018: 3.32% to 4.08%) per annum. As at 31 December 2019, bank deposits of RMB3,474,192 (31 December 2018: RMB48.1 million) were pledged to secure general banking facilities granted to Suzhou Zhihua and HK$6,497 (2018:HK$3,986,933) were pledged for bills payables.

(ii) Bank balances carry interest at floating rates based on daily bank deposit rates.

Cash and cash equivalents of the Group of HK$47,122,527 (2018: HK$80,678,470) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

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31. TRADE AND BILLS PAYABLES AND OTHER PAYABLES

	2019 HK$	2018 HK$
Non-current liability:		
Other payable	**144,331**	–
Current liabilities:		
Trade payables (Note (a))	**301,975,479**	103,225,264
Bills payables	**8,204,943**	15,415,087
Other payables and accruals	**140,700,865**	116,313,787
	450,881,287	234,954,138

The credit period on trade payables is normally 90 days.

As at 31 December 2019, HK$15,170,722 (2018: HK$29,656,515) included in other payables was deposits paid by customers for the financing services for leasing motor vehicles.

During the year ended 31 December 2018, consideration payable was settled by the share subscription and issue of convertible bonds as detail in note 51.

(a) Ageing analysis

The ageing analysis of trade payables is as follows:

	2019 HK$	2018 HK$
Within 3 months	**181,988,010**	99,212,152
Over 3 months but less than 6 months	**102,359,013**	3,296,550
Over 6 months but less than 12 months	**7,762,686**	581,232
Over 12 months	**9,865,770**	135,330
	301,975,479	103,225,264

As at 31 December 2019, bills payables were pledged with bank deposits and bills receivables amounting to approximately HK$6,497 (2018: HK$3,986,933) and HK$3,875,565 (2018: HK$8,203,885) respectively.

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32. CONTRACT LIABILITIES

	2019 HK$	2018 HK$
Contract liabilities	**19,541,583**	29,754,161

Movements in contract liabilities	**19,541,583**	29,754,161
At 1 January	**29,754,161**	29,656,515
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(14,931,822)**	–
Increase in contract liabilities as a result of receiving forward sales deposits	**4,719,244**	97,646
At 31 December	**19,541,583**	29,754,161

The contract liabilities will be recognised as revenue when the Group fulfil the contract's obligation.

33. NET DEFINED BENEFITS LIABILITIES

The Group operates a retirement benefits plan for its Germany employees. Under the plan, the employees will be paid their average salary amount of their final six months under employment multiplied by the number of years vested.

For the year ended 31 December 2019, the actuarial valuation of plan assets and the present value of the retirement benefits liabilities were performed by reputable actuaries, Rüss, Dr. Eimmermann und Partner (GbR). The present value of the retirement benefits liabilities, the related current service cost and past service cost were measured using the project unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2019
Discount rate	0.90%
Expected rate of salary increase	1.00%

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33. NET DEFINED BENEFITS LIABILITIES *(CONTINUED)*

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	2019 HK$
Present value of funded defined benefit obligation	6,416,315
Net liability arising from defined benefit obligation	6,416,315

Movements in the present value of the defined benefit obligation were as follows:

	2019 HK$
At 1 January	–
Acquisition of subsidiaries	4,142,313
Current service costs	409,350
Interest cost on benefit obligations	57,736
Re-measurement losses recognised in other comprehensive income:	
– Actuarial losses arising from changes in demographic assumptions	24,000
– Actuarial losses arising from changes in financial assumptions	1,340,834
– Actuarial losses arising from experience adjustments	448,816
Exchange alignment	(6,734)
At 31 December	6,416,315

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33. NET DEFINED BENEFITS LIABILITIES *(CONTINUED)*

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk, longevity risk and salary risk.

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected rate of salary increase. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the relevant periods, while holding all other assumptions constant.

– for the year ended 31 December 2019, if the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by HK$813,139 (increase by HK$740,782).

– for the year ended 31 December 2019, if the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by HK$40,938 (decrease by approximately HK$83,069).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

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34. LEASE LIABILITIES

The following tables shows the remaining contractual maturities of the Group's lease liabilities as at 31 December 2019:

	Present value of the minimum lease payment HK$	**The minimum lease payment** HK$
Within 1 year	8,945,719	9,649,336
After 1 year but within 2 years	7,311,000	7,697,008
Over 2 years	9,271,712	9,604,097
	25,528,431	26,950,441
Less: total future interest expenses		(1,422,010)
Total lease liabilities		25,528,431
Less: non-current portion		(16,582,712)
Current portion		8,945,719

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated.

Total cash outflow for leases during the year ended 31 December 2019 was HK$8,350,970.

Further details on the impact of the transition to HKFRS 16 are set out in note 2.

35. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2019 **HK$**	2018 HK$
As at 1 January	**969,505**	1,268,036
Provision for income tax for the year (Note 13):		
– PRC Enterprise Income Tax	**2,634,958**	1,706,901
– Hong Kong Profits Tax	**(19,366)**	–
– Other than Hong Kong and PRC	**(916,112)**	–
Income Tax Paid	**(2,660,297)**	(2,005,432)
As at 31 December	**8,688**	969,505

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

(b) Deferred tax asset recognised

The components of deferred tax assets recognized in the consolidated statements of financial position and the movement during the year are as follows:

	Defined benefit obligation HK$	Right-of-use assets HK$	Total HK$
As at 1 January 2019			
Acquisition of subsidiary (Note 42)	952,202	390,209	1,342,411
Charged to consolidated statements of profit or loss and other comprehensive income	(210,133)	(390,209)	(600,342)
As at 31 December 2019	742,069	–	742,069

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$159,945,547 (2018: HK$33,068,499) as it is not probable that the future taxable profits against which the losses can be utilised will be available in relevant tax jurisdiction and entity. The cumulative tax losses of which HK$82,907,911 (2018: HK$33,068,499) in PRC will expire in the coming two to five years (2018: two to five years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Deferred tax liabilities recognised

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

	Development costs HK$	Acquired know-how, brand name and customer relationship HK$	Convertible bonds HK$	Total HK$
As at 1 January 2018	–	–	4,396,883	4,396,883
Issue of convertible bond	–	–	3,369,090	3,369,090
Credit to consolidated statement of profit or loss and other comprehensive income (Note 13)	–	–	(3,315,207)	(3,315,207)
As at 31 December 2018 and 1 January 2019	–	–	4,450,766	4,450,766
Issue of convertible bond	–	–	6,587,405	6,587,405
Acquisition of subsidiaries (Note 42)	–	113,287,200	–	113,287,200
Charge/(credit) to consolidated statement of profit or loss and other comprehensive income (Note 13)	1,532,549	(13,009,000)	(2,662,467)	(14,138,918)
As at 31 December 2019	**1,532,549**	**100,278,200**	**8,375,704**	**110,186,453**

	2019 HK$	2018 HK$
Deferred tax liabilities recognised on the consolidated statement of financial position	**110,186,453**	4,450,766

For the purpose of the presentation in the consolidated statement of financial position, certain deferred tax liabilities and assets have been offset within the same tax jurisdiction. The following is the analyst of the deferred tax balances for financial reporting purposes:

	2019 HK$	2018 HK$
Deferred tax asset	**742,069**	–
Deferred tax liabilities	**(110,186,453)**	(4,450,766)
	(109,444,384)	(4,450,766)

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36. BORROWINGS

	2019 HK$	2018 HK$
Bank borrowings (Note (a), (b), (c), (d) and (e))	**400,878,859**	83,678,648
Other borrowings (Note (f))	**86,170,554**	49,657,325
	487,049,413	133,335,973
Secured (Note (a), (b), (c), (d) and (e))	**400,878,859**	77,986,221
Unsecured (Note (a) and (f))	**86,170,554**	55,349,752
	487,049,413	133,335,973
Carrying amount repayable:		
On demand or within one year	**487,049,413**	133,335,973
Less: amounts classified as current liabilities	**(487,049,413)**	(133,335,973)
Non-current liabilities	**–**	–

As at 31 December 2019 and 2018, terms of bank and other borrowings were summarised as follows:

(a) As at 31 December 2019, the short-term secured bank borrowings of HK$98,653,859 (2018: HK$77,986,221) carries fixed interest rate ranged from 3.98% to 6.00% (2018: 4.79% to 5.66%) per annum and HK$Nil (2018: HK$5,692,427) were obtained from bank, which were unsecured, repayable within one year and carries fixed interest rate of Nil% (2018: 5.66%) per annum.

(b) As at 31 December 2019, the secured bank borrowings of HK$302,225,000 carries variable interest rate at LIBOR + 2.45% per annum which effective interest rate at 4.35%. The bank borrowing was a 3 years fixed term loan, it was classified as repayment on demand because of failure to fulfil certain financial covenants as stated in the loan agreement. Up to the date of consolidated financial statements, the Group has actively negotiated with the relevant banks to obtain the waiver for strict compliance on the relevant financial covenant requirements.

(c) As at 31 December 2019, HK$52,517,800 (2018: HK$29,031,377) bank borrowings were secured by personal guarantee given by a director of the subsidiary and HK$Nil (2018: HK$45,539,414) bank loans were pledged with the Group's bank deposit amounting to RMB42.4 million.

(d) As at 31 December 2019, bank borrowings of USD38,500,000 (equivalent to approximately HK$302,225,000) which is secured by certain receivables and the entire issued share capital of subsidiary of Titan and guaranteed by the ultimate holding company and immediate holding company of the Company.

(e) As at 31 December 2019, bank borrowings of USD5,877,205 (equivalent to approximately HK$46,136,059) was guaranteed by the ultimate holding company and repayable within one year.

(f) As at 31 December 2019, other borrowings of HK$86,170,554 (2018: HK$49,657,325) were obtained from independent third parties, which were unsecured, repayable within one year and carries fixed interest rate ranged from 4.35% to 11.00% (2018: 4.35% to 11.00%) per annum.

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

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37. CONVERTIBLE BONDS

	CB1 (Note (a)) HK$	CB2 (Note (b)) HK$	CB3 (Note (c)) HK$	CB4 (Note (d)) HK$	Total HK$
Liability component at 1 January 2018	51,852,581	282,499,645	–	–	334,352,226
Add: Liability component on initial recognition at 21 June 2018	–	–	33,281,273	–	33,281,273
Add: Imputed interest expense	6,429,720	29,899,737	1,762,708	–	38,092,165
Less: Interest charged	–	(18,000,000)	–	–	(18,000,000)
Liability component at 31 December 2018 and 1 January 2019	58,282,301	294,399,382	35,043,981	–	387,725,664
Add: Liability component on initial recognition at 27 February 2019	–	–	–	49,958,831	49,958,831
Add: Imputed interest expense	2,717,699	23,572,995	3,496,709	4,321,138	34,108,541
Less: Interest charged	–	(17,972,377)	–	–	(17,972,377)
Less: Conversion of convertible bond on 24 May 2019	(61,000,000)	–	–	–	(61,000,000)
Liability component at 31 December 2019	–	300,000,000	38,540,690	54,279,969	392,820,659
Less: amount classified under current liabilities	–	(300,000,000)	–	–	(300,000,000)
Non-current liabilities	–	–	38,540,690	54,279,969	92,820,659

Notes:

(a) On 16 May 2016, the Group entered into a sale and purchase agreement with an independent third party for acquiring 7.88% of the issued share capital of Sino Partner at a consideration of HK$136,000,000, of which HK$61,000,000 was settled by the issue of convertible bond (the "CB 1"). Completion took place on 27 May 2016. The CB 1 initially matures at the third anniversary of the issue date (i.e. 26 May 2019). The initial conversion price was HK$0.884 per conversion share. The CB 1 contains two components, liability and equity elements. The equity element is presented in equity heading "Convertible bonds reserves". The effective interest rate of the liability component is 12.40%.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in Convertible bonds reserves.

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37. CONVERTIBLE BONDS *(CONTINUED)*

Notes: *(Continued)*

(a) *(Continued)*

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

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

As at 31 December 2019 and 2018, the principal amount of the CB 1 was HK$61,000,000 which was converted at the conversion price of HK$0.884 per ordinary share on 24 May 2019 and an aggregate of 69,004,524 shares were allotted and issued. Interest expense on the CB 1 is calculated using the effective interest method by applying the effective interest rate of 12.40% (2018: 12.40%) to the liability component.

(b) On 1 March 2017, the Company entered into a subscription agreement with Tuspark Venture, Munsun Smart Mobility Fund LP and CM Securities Investment Limited (collectively the "Subscribers") (as subscribers) and CM Securities (Hongkong) Company Limited (as sole lead arranger), pursuant to which (among others) each of the Subscribers conditionally agreed to subscribe the convertible bond (the "CB 2") of HK$100.0 million and the Company conditionally agreed to issue the convertible bond in an aggregate principal amount of and for a price no more than HK$300.0 million. Completion took place on 9 June 2017. The CB 2 initially matures at the second anniversary of the issue date (i.e. 8 June 2019). The CB 2 bears interest of 6% per annum and payable every six months in arrears on the interest payment date. The initial conversion price was HK$0.9103 per conversion share. The CB 2 contains two components, liability and equity elements. The equity element is presented in equity heading "Convertible bonds reserves". The effective interest rate of the liability component is 12.49%. On 25 April 2019, the Company and the subscriber entered into a supplementary agreement to extend the maturity date and conversion period to 9 June 2020.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in convertible bonds reserves.

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

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

As at 31 December 2019 and 2018, the outstanding principal amount of the CB 2 was HK$300,000,000. Interest expense on the CB 2 is calculated using the effective interest method by applying the effective interest rate of 12.49% (2018: 12.49%) to the liability component.

37. CONVERTIBLE BONDS *(CONTINUED)*

Notes: *(Continued)*

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

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity in convertible bonds reserves.

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

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

As at 31 December 2019 and 2018, the outstanding principal amount of the CB 3 was HK$53,700,000. Interest expense on the CB 3 is calculated using the effective interest method by applying the effective interest rate of 10.04% (2018: 10.04%) to the liability component.

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37. CONVERTIBLE BONDS *(CONTINUED)*

Notes: *(Continued)*

(d) On 27 February 2019, the 0% coupon convertible bonds (the "CB 4") in the aggregate principal amount of HK$89,882,500, which may be converted into 147,735,865 conversion shares at the initial conversion price of HK$0.6084 per share, were duly issued to Tuspark Venture at the total consideration representing 100% of the principal amount pursuant to the Tuspark Subscription Agreement. The CB 4 will be matured on 26 February 2025 which contains two components, liability and equity elements. The equity element is presented in equity heading "Convertible bonds reserves". The effective interest rate of the liability component is 10.28%.

CB 4 recognised in the condensed consolidated statement of financial position is as follows:

	HK$
Fair value of CB 4	89,882,500
Equity component	(39,923,669)
Liability component on initial recognition and amortised cost at 27 February 2019	49,958,831

As at 31 December 2019, the outstanding principal amount of the CB4 was HK$89,882,500. Interest expense on the CB4 is calculated using the effective interest method by applying the effective interest rate of 10.28% to the total liability component.

38. EMPLOYEE RETIREMENT BENEFITS

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

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

In Europe and other countries where the Group operates, the Group also participates in social security schemes, net defined benefits plan or other equivalent pension plans organised by the relevant local government authorities for eligible employees, under which the Group makes contributions in an amount equivalent to a specified percentage of employee's monthly salaries.

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

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39. SHARE OPTION SCHEMES

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

During the year ended 31 December 2018, 10,280,000 share options were granted to consultant, directors and senior management of the Company. No share options were granted during the year ended 31 December 2019. Details of specific categories of share options are as follows:

	Date of grant	Exercisable period	Exercise price	Number of share options granted
Share option 1	22 January 2016	22 January 2017 to 21 January 2026	HK$0.820	39,520,000
Share option 2	12 October 2016	12 October 2017 to 11 October 2026	HK$0.822	27,840,000
Share option 3	31 March 2017	31 March 2018 to 30 March 2027	HK$0.720	1,000,000
Share option 4	18 April 2018	18 April 2019 to 17 April 2028	HK$0.620	10,280,000

During the year ended 31 December 2019, no share options were cancelled or exercised. A total of 15,720,000 (2018: 18,560,000) share options were lapsed.

The particulars of the changes of the share options under the scheme during the year ended 31 December 2019 are as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share	At 1 January 2019	Granted during the year	Lapsed during the year	At 31 December 2019
Directors	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	27,840,000	–	(13,920,000)	13,920,000
Employees	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	1,400,000	–	(800,000)	600,000
Directors	12 October 2016	1 year	12 October 2017 to 11 October 2026	0.822	18,560,000	–	–	18,560,000
Employee	31 March 2017	1 year	31 March 2018 to 30 March 2027	0.72	1,000,000	–	(1,000,000)	–
Directors	18 April 2018	1 year	18 April 2019 to 17 April 2028	0.620	9,280,000	–	–	9,280,000
Employee	18 April 2018	1 year	18 April 2019 to 17 April 2028	0.620	1,000,000	–	–	1,000,000
					59,080,000	–	(15,720,000)	43,360,000
Exercisable at the end of the year								43,360,000
Weighted average exercise price (HK$)					0.784	–	0.814	0.773

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For the year ended 31 December 2019

39. SHARE OPTION SCHEMES *(CONTINUED)*

The particulars of the changes of the share options under the scheme during the year ended 31 December 2018 are as follows:

Grantee	Date of grant	Vesting period	Exercisable period	Exercise price per share	At 1 January 2018	Granted during the year	Lapsed during the year	At 31 December 2018
Directors (note)	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	37,120,000	–	(9,280,000)	27,840,000
Employees	22 January 2016	1 year	22 January 2017 to 21 January 2026	0.82	1,400,000	–	–	1,400,000
Directors	12 October 2016	1 year	12 October 2017 to 11 October 2026	0.822	27,840,000	–	(9,280,000)	18,560,000
Employee	31 March 2017	1 year	31 March 2018 to 30 March 2027	0.72	1,000,000	–	–	1,000,000
Directors	18 April 2018	1 year	18 April 2019 to 17 April 2028	0.620	–	9,280,000	–	9,280,000
Employee	18 April 2018	1 year	18 April 2019 to 17 April 2028	0.620	–	1,000,000	–	1,000,000
					67,360,000	10,280,000	(18,560,000)	59,080,000
Exercisable at the end of the year								59,080,000
Weighted average exercise price (HK$)					0.819	0.620	0.821	0.784

Note:

Options granted to Ms. Cheung Joanna Wai Sze and Mr. Sheng Ruzhi who have resigned as the executive Director and non-executive Director of the Company with effect from 23 July 2018 and 31 August 2017 respectively. Afterwards, they both hold position as a consultant within the Group.

The fair value of the options granted is estimated at the date of grant using Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. The fair values of options granted during the year ended 31 December 2019 and 2018 were estimated on the date of grant using the following assumptions:

	Share Option 1	Share Option 2	Share Option 3	Share Option 4
Date of grant	22 January 2016	12 October 2016	31 March 2017	18 April 2018
Fair value at measurement date	HK$0.294	HK$0.427	HK$0.324	HK$0.324
Share price	HK$0.720	HK$0.780	HK$0.720	HK$0.620
Exercise price	HK$0.820	HK$0.822	HK$0.720	HK$0.620
Expected volatility	56.121%	70.550%	73.160%	57.105%
Option life	10 years	10 years	10 years	10 years
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	1.590%	1.105%	1.666%	2.101%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

During the year ended 31 December 2018, the total fair value of the share options granted was HK$3,332,995. No share options were granted during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

(a) Share capital

Authorised and issued share capital

	2019		2018	
	Number of shares	**HK$**	Number of shares	HK$
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:				
As at 1 January	**1,323,184,888**	**13,231,849**	928,184,888	9,281,849
Subscription of shares (Note (i))	**671,425,871**	**6,714,259**	395,000,000	3,950,000
Issue of shares upon conversion of convertible bond (Note (ii))	**69,004,524**	**690,045**	–	–
	2,063,615,283	**20,636,153**	1,323,184,888	13,231,849

Notes:

(i) On 27 February 2019, the Company completed the allotment and issue of shares to subscribers of an aggregate of 671,425,871 ordinary shares at the subscription price of HK$0.6084 per share.

On 21 June 2018 and 12 September 2018, the Company completed the allotment and issue of shares to subscribers of 295,000,000 subscription shares and of 100,000,000 subscription shares respectively at the subscription price of HK$0.537 per subscription share.

(ii) On 24 May 2019, the Company issued 69,004,524 shares of HK$0.01 each upon conversion of convertible bond at the conversion price of HK$0.884 per conversion share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. CAPITAL AND RESERVES *(CONTINUED)*

(b) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Company Law of Cayman Islands.

(ii) Statutory surplus reserve

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies.

(iv) Other reserve

Other reserve of the Group comprises the following:

– the fair value of existing share of net identifiable assets of a jointly controlled entity or an associate acquired over its carrying amount of net identifiable assets of subsidiaries at date of which control is obtained by the Group;

– the excess of purchase consideration on acquisition of non-controlling interests over the carrying value of share of net assets acquired in accordance with the accounting policy adopted for subsidiaries and non-controlling interests; and

– gain on deemed disposal or partial disposal of subsidiaries where the Group's interest in a subsidiary is increased without losing control in accordance with the accounting policy adopted for subsidiaries and non-controlling interests.

40. CAPITAL AND RESERVES *(CONTINUED)*

(b) Nature and purpose of reserves *(Continued)*

(v) Share option reserve

This reserve represents the fair value of the actual or estimated number of unexercised share options granted to eligible persons, including any full-time and part-time employees, Directors, consultants or advisors of the Company and its subsidiaries or any associate of the Company, recognised in accordance with the share option scheme which is set out in the section headed "Share Option Schemes" in Report of the Directors of this report.

(vi) Convertible bonds reserves

The convertible bonds reserves represent the equity components of the convertible bonds issued. Convertible bonds issued are split into liability and equity components at initial recognition at the fair values of the convertible bonds, which is determined by independent qualified professional valuers.

(vii) Warrants reserve

The warrants reserve represents the fair value of the unexercised warrants issued by the Group recognised in accordance with the Group's accounting policy adopted for equity instruments.

(c) Distributability of reserves

The Company had distributable reserves of HK$466,142,797 at 31 December 2019 (2018: HK$327,931,443), which include the Company's share premium and accumulated losses.

(d) Capital management

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

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

Consistent with industry practice, the Group monitors its capital structure on the basis of debt to capital ratio. Debt is calculated as aggregate of convertible bonds, lease liabilities, bank and other borrowings. Total equity comprises all components of equity attributable to the owners of the Company.

During the year ended 31 December 2019 and 2018, the Group has complied with all the externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. CAPITAL AND RESERVES *(CONTINUED)*

(d) Capital management *(Continued)*

The following is the debt to capital ratio at the end of each reporting year:

	2019	2018
	HK$	HK$
Debt (Note (a))	**905,398,503**	521,061,637
Total equity (Note (b))	**573,589,091**	418,027,838
Debt to capital ratio	**157.85%**	124.65%

Notes:

(a) Debt comprises lease liabilities, bank and other borrowings and convertible bonds as detailed in notes 34, 36 and 37 respectively.

(b) Equity includes all capital and reserves attributable to owners of the Company.

41. DISCONTINUED OPERATIONS

On 12 April 2019, an indirect wholly owned subsidiary of the Company, Suzhou Qiyixin Enterprise Management Co., Ltd entered into a sale and purchase agreement and agreed to sell 51% of the equity interests in Suzhou Yadu Cloud Technology Co. Limited（蘇州亞都雲科技有限公司）("Suzhou Yadu") to Yadu Technology Group Co., Ltd.（亞都科技集團有限公司）at a consideration of RMB40.8 million (equivalent to approximately HK$46.1 million). Suzhou Yadu is principally engaged in the research and development of car-carried purifiers and related air technology and the sale of car-carried purifiers in the PRC. Pursuant to the terms of the said sale and purchase agreement, the date on which filing in relation to the change in the shareholding in Suzhou Yadu with relevant industry and commerce administration authorities is completed shall be regarded as the date of completion of the disposal. As at the date hereof, completion has not taken place.

The loss for the year ended 31 December 2019 and 2018 from discontinued operations is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to represent the car-carried purifiers business as a discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. DISCONTINUED OPERATIONS *(CONTINUED)*

Analysis of the results of the discontinued operation is set out below:

	2019	2018
	HK$	HK$
Revenue	**–**	–
Cost of sales	**–**	–
Gross profit	**–**	–
Other revenue	**1,513**	4,731
Administrative expenses	**(2,038,031)**	(4,185,850)
Loss before taxation	**(2,036,518)**	(4,181,119)
Taxation	**–**	–
Loss for the year from discontinued operation	**(2,036,518)**	(4,181,119)
Loss for the year attributable to:		
Owners of the Company	**(1,038,624)**	(2,132,371)
Non-controlling interests	**(997,894)**	(2,048,748)
	(2,036,518)	(4,181,119)
Loss per share attributable to owners of the Company from discontinued operation:		
– Basic and diluted (HK cents per share)	**(0.05)**	(0.21)

The cumulative exchange reserve recognised in other comprehensive income in relation to the discontinued operation as at 31 December 2019 were HK$1,579,907 (2018: HK$4,809,346).

During the year ended 31 December 2019, Suzhou Yadu contribute HK$68,557 to the Group's net operating cash outflows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. DISCONTINUED OPERATIONS *(CONTINUED)*

The major classes of assets of the discontinued operation classified as held for sales as at 31 December 2019 are as follows:

	31 December 2019 HK$
Intangible assets	31,939,016
Deposit	44,696,000
Other receivables	5,587,000
Cash and cash equivalents	455,339
Current tax recoverable	759
Assets classified as held for sales	82,678,114
Net assets directly associated with the disposal group	82,678,114

Loss before taxation from discontinued operation is arrived at after charging the following:

	2019 **HK$**	2018 HK$
Amortisation of intangible assets	**1,977,014**	4,113,587

42. ACQUISITION OF SUBSIDIARIES

Name of subsidiaries	**Principal activity**	**Date of acquisition**	**Proportion of shares acquired**
Titan Automotive Solutions NV and its subsidiaries (the "Titan Group")	Development, manufacture and sales of auto grade cellular module	27 February 2019	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

42. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

On 12 July 2018, Shine Venture Limited and the Company as buyers, Telit Communications PLC and Telit Wireless Solutions S.R.L. as vendors, entered into a sale and purchase agreement, pursuant to which the Company agreed to buy and the vendors agreed to sell all the issued shares of Titan Automotive Solutions N.V. at an aggregate consideration of US$105,000,000 (equivalent to approximately HK$824,250,000), subject to adjustments with reference to the aggregate cash, debt and working capital of Titan Automotive Solutions N.V. and its subsidiaries and transfer costs at completion date. The final purchase consideration amounted to HK$530,400,816 was arrived at after adjustments including debt of HK$302,225,000, cash and working capital of approximately HK$8,375,816 (in aggregate amount equals HK$824,250,000) of Titan Automotive Solutions N.V. and its subsidiaries at completion date. The acquisition of the entire equity interest in the Titan Group was completed on 27 February 2019.

The Titan Group is principally engaged in the businesses of automotive business, which involves the development, manufacture and sale of auto grade cellular modules. Management considered the business strategies of the Group and the satisfactory business performance as well as the growth potential of the Titan Group, the acquisition was in line with the Group's strategy of developing intelligent connected vehicles, and will enable the Group to leverage the expertise of the Titan Group and its strong presence and research and development capabilities in various countries, which will create favourable synergies for the Group.

	Titan Group HK$
Property, plant and equipment	70,273,099
Right-of-use assets	15,942,331
Intangible assets	382,985,800
Inventories	4,830,519
Trade receivables	51,922,428
Amount due from ultimate holding company	251,831,572
Prepayments, deposits and other receivables	24,450,361
Cash and cash equivalents	7,531,592
Trade and bills payables	(62,466,399)
Other payables and accruals	(571,062,688)
Net defined benefits liabilities	(4,142,313)
Lease liabilities	(15,978,187)
Current tax payable	(328,716)
Deferred tax assets	1,342,411
Deferred tax liabilities	(113,287,200)
Fair value of net identifiable assets and liabilities acquired	43,844,610

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42. ACQUISITION OF SUBSIDIARIES *(CONTINUED)*

Goodwill arising on acquisition:

	HK$
Cash consideration	530,400,816
Less: fair value of identifiable net assets acquired	(43,844,610)
Goodwill arising on acquisition	486,556,206

Net cash outflow on acquisition of subsidiaries:

	Titan Group HK$
Consideration paid in cash	530,400,816
Less: cash and cash equivalent balances acquired	(7,531,592)
Net cash outflow	522,869,224

Impact of acquisition on the results of the Group

Acquisition-related costs amounting to HK$9,097,950 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'Administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Included in the loss for the year is HK$167,906,268 attributable to the additional business generated by Titan Group. Revenue for the year includes HK$455,589,241 generated from Titan Group.

Had the acquisition been completed on 1 January 2019, revenue for the year of the Group would have been HK$522,503,489, and loss for the year of the Group would have been HK$173,511,806. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Titan Group been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

The fair value and gross contractual amount of trade receivables and prepayments, deposits and other receivables at the date of acquisition amounted to HK$51,922,428 and HK$24,450,361 respectively. The estimate at acquisition date of contractual cash flows not expected to be collected is insignificant. None of the goodwill recognised is expected to be deductible for income tax purpose.

43. DISPOSAL OF SUBSIDIARIES

(a) On 28 November 2019, Herr Dirk Brunnengräber, Herr Martin Glänzer, Freiherr Michael Voith von Voithenberg,, Herr Dr. Dirk Dickmanns and Herr Lode Theunynck who are independent third parties ("Joint Holders"), Kymati GmbH, which is held as to approximately 75.28% by an indirect wholly-owned subsidiary of the Company entered into a shareholder agreement, pursuant to which the Company and Joint Holders shall make respective capital contributions of EUR643,328 in cash to the registered capital of Kymati GmbH by end of September 2019. Upon early November 2019, the Group failed to do capital contribution and the Group lost control over Kymati GmbH and it was ceased to be subsidiary of the Group under deemed disposal.

Summary of the effects of the disposal of Kymati GmbH is as follows:

	HK$
Net assets disposed of:	
Property, plant and equipment	1,878,756
Trade receivables, prepayments and other receivables	2,359,982
Cash and cash equivalents	2,039,698
Trade and other payables	(1,381,202)
Current tax payables	(867,628)
	4,029,606
Release of exchange reserve	(302,906)
Gain on deemed disposal	3,726,700
Consideration for disposal of Kymati GmbH	–

Net cash outflow on disposal of Kymati GmbH:

	HK$
Consideration received in cash and cash equivalent for disposal of Kymati GmbH	–
Less: cash and cash equivalent balances disposed of	2,039,698
Net cash outflow	2,039,698

(b) During the year ended 31 December 2019, the Group deregistered and dissolved numbers of wholly-owned subsidiaries of the Company. These subsidiaries are dormant. The loss on disposal of HK$14,014,859 was recognised to the consolidated statement of profit or loss during the year.

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44. IMPAIRMENT TESTING ON CASH-GENERATING UNITS

Development, production and sales of ADAS products

The Group carried out an impairment testing on this CGU. The review was performed by an independent qualified valuer as at 31 December 2019 and the value in use of the CGU has been measured by using cash flow projection based on the cash flows covering a 5-year period with discount rate and terminal growth rate of 12.35% (2018: 12.75%) and 3% (2018: 3%) respectively. No impairment loss has been recognised during the year ended 31 December 2019 and 2018 (Note 22). Any adverse change in assumptions used in the calculation of recoverable amount of the CGU would result in impairment loss on the goodwill.

Development, manufacture and sales of auto grade cellular module

The Group carried out an impairment testing on this CGU. The review was performed by an independent qualified valuer as at 31 December 2019 and the value in use of the CGU has been measured by using cash flow projection base on the cash flows covering a 5-year period with discount rate and terminal growth rate of 19.18% and 3%. No impairment loss has been recognised during the year ended 31 December 2019 (Note 22). Any adverse change in assumptions used in the calculation of recoverable amount of the CGU would result in impairment loss on the goodwill.

Finance lease of motor vehicles and equipment

The Group carried out an impairment testing on this CGU. The review was performed by an independent qualified valuer as at 31 December 2019 and 2018 and the value in use of the CGU has been measured by using cash flow projection based on the cash flows covering a 5-year period with discount rate and terminal growth rate of 8.45% (2018: 9.62%) and 3% (2018: 3%) respectively. No impairment loss has been recognised during the year ended 31 December 2019 and 2018 (Note 22). Any adverse change in assumptions used in the calculation of recoverable amount of the CGU would result in impairment loss on the goodwill.

45. COMMITMENTS AND CONTINGENCIES

At 31 December 2018 and 2017, the total future minimum lease payments under non-controllable operating leases were payable as follows:

	2018
	HK$
Within 1 year	4,188,050
After 1 year but within 5 years	3,407,120
	7,595,170

	2019	2018
	HK$	HK$
Capital expenditure in respect of the acquisition of a subsidiary contracted for but not provided in the consolidated financial statement	–	7,904,483

The Group is the lessee in respect of offices premise which was previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3, and the details regarding the Group's future lease payments are disclosed in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

46. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Transaction with related party

	2019 **HK$**	2018 HK$
Interest paid on the convertible bond subscribed by a shareholder:		
Tuspark Venture	**4,321,137**	2,991,781

(b) Compensation to key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 14 and certain of the highest paid employee as disclosed in note 15, is as follows:

	2019 **HK$**	2018 HK$
Short-term employee benefits	**7,487,000**	9,180,553
Post-employment benefits	**63,000**	84,000
Share-based payments	**882,024**	2,126,749
	8,432,024	11,391,302

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

47. PLEDGE OF ASSETS

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

	2019 **HK$**	2018 HK$
Bills receivables	**3,875,565**	8,203,885
Pledged bank deposits	**3,883,581**	50,344,939
	7,759,146	58,548,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$	2018 HK$
Non-current assets		
Property, plant and equipment	**13,478**	19,056
Investments in subsidiaries	**125**	148
Financial assets at fair value through other comprehensive income	**524,968**	804,982
	538,571	824,186
Current assets		
Prepayments and other receivables	**24,604,968**	133,908,078
Amounts due from subsidiaries	**994,565,768**	662,118,772
Pledged bank deposits	**–**	48,065,733
Cash and cash equivalents	**83,628**	5,989,415
	1,019,254,364	850,081,998
Current liabilities		
Other payables and accruals	**21,824,118**	13,182,258
Amount due to a subsidiary	**6,749,815**	–
Borrowings	**20,094,441**	35,550,000
Convertible bonds	**300,000,000**	58,282,301
	348,668,374	107,014,559
Non-current liabilities		
Deferred tax liabilities	**8,375,704**	4,450,766
Convertible bonds	**92,820,659**	329,443,363
	101,196,363	333,894,129
Net current assets	**670,585,990**	743,067,439
Net assets	**569,928,198**	409,997,496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

	2019 HK$	2018 HK$
Capital and reserves		
Share capital	**20,636,153**	13,231,849
Reserves	**549,292,045**	396,765,647
Total equity	**569,928,198**	409,997,496

Approved and authorised for issue by the Board of Directors on 25 May 2020.

Ma Chi Kong Karl
Chairman

Du Peng
Director

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Reserve of the Company

	Share capital HK$	Share premium HK$	Share option reserve HK$	FVTOCI reserve HK$	Convertible bonds reserves HK$	Accumulated losses HK$	Total HK$
As at 31 December 2017 and 1 January 2018	9,281,849	477,037,709	23,457,860	–	33,337,594	(224,678,816)	318,436,196
Other comprehensive loss for the year net of income tax	–	–	–	(755,019)	–	–	(755,019)
Loss for the year	–	–	–	–	–	(133,303,911)	(133,303,911)
Issue of shares	3,950,000	202,185,590	–	–	–	–	206,135,590
Issue of convertible bond	–	–	–	–	20,418,727	–	20,418,727
Deferred taxation of convertible bonds	–	–	–	–	(3,369,090)	–	(3,369,090)
Share-based payments	–	–	2,435,003	–	–	–	2,435,003
Lapse of share option	–	–	(6,690,871)	–	–	6,690,871	–
As at 31 December 2018 and 1 January 2019	13,231,849	679,223,299	19,201,992	(755,019)	50,387,231	(351,291,856)	409,997,496
Other comprehensive loss for the year net of income tax	–	–	–	(280,013)	–	–	(280,013)
Loss for the year	–	–	–	–	–	(342,478,120)	(342,478,120)
Issue of shares	6,714,259	401,781,241	–	–	–	–	408,495,500
Conversion of convertible bonds	690,045	75,376,111	–	–	(15,066,156)	–	61,000,000
Transaction costs attributable to issues of shares and convertible bonds	–	(1,120,000)	–	–	–	–	(1,120,000)
Issue of convertible bond	–	–	–	–	39,923,669	–	39,923,669
Deferred taxation of convertible bonds	–	–	–	–	(6,587,405)	–	(6,587,405)
Share-based payments	–	–	977,071	–	–	–	977,071
Lapse of share option	–	–	(4,652,122)	–	–	4,652,122	–
As at 31 December 2019	20,636,153	1,155,260,651	15,526,941	(1,035,032)	68,657,339	(689,117,854)	569,928,198

49. CONTINGENT LIABILITIES

As at 31 December 2019 and 2018, the Group did not have any significant contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

50. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings HK$	Convertible bonds HK$	Lease liabilities HK$	Total HK$
As at 1 January 2018	83,983,628	334,352,226	–	418,335,854
Changes from financing cash flows:				
Proceeds from borrowings	126,920,518	–	–	126,920,518
Repayment of borrowings	(71,724,555)	–	–	(71,724,555)
Interest paid	(15,877,169)	(14,991,781)	–	(30,868,950)
Total changes from financing cash flows	39,318,794	(14,991,781)	–	24,327,013
Other changes:				
Interest expenses	15,877,169	38,092,165	–	53,969,334
Set-off other payables	–	30,273,054	–	30,273,054
Foreign exchange movement	(5,843,618)	–	–	(5,843,618)
Total other changes	10,033,551	68,365,219	–	78,398,770
As at 31 December 2018	133,335,973	387,725,664	–	521,061,637
Impact on initial application of HKFRS 16 (Note 2)	–	–	4,399,618	4,399,618
As at 1 January 2019	**133,335,973**	**387,725,664**	**4,399,618**	**525,461,255**
Changes from financing cash flows:				
Proceeds from borrowings	**468,258,098**	**–**	**–**	**468,258,098**
Repayment of borrowings	**(113,809,805)**	**–**	**–**	**(113,809,805)**
Issue of convertible bond	**–**	**49,958,831**	**–**	**49,958,831**
Acquisition of subsidiaries (Note 42)	**–**	**–**	**15,978,187**	**15,978,187**
Repayments of lease liabilities	**–**	**–**	**(8,350,970)**	**(8,350,970)**
New leases entered	**–**	**–**	**12,230,766**	**12,230,766**
Interest paid	**(31,634,068)**	**(17,972,377)**	**–**	**(49,606,445)**
Total changes from financing cash flows	**322,814,225**	**31,986,454**	**19,857,983**	**374,658,662**
Other changes:				
Interest expenses	**31,634,068**	**34,108,541**	**873,803**	**66,616,412**
Issue of share upon conversion of convertible bonds	**–**	**(61,000,000)**	**–**	**(61,000,000)**
Foreign exchange movement	**(734,853)**	**–**	**397,027**	**(337,826)**
Total other changes	**30,899,215**	**(26,891,459)**	**1,270,830**	**5,278,586**
As at 31 December 2019	**487,049,413**	**392,820,659**	**25,528,431**	**905,398,503**

51. MAJOR NON-CASH TRANSACTION

(i) During the year ended 31 December 2019, the Company, Dawin (H.K.) Limited ("Dawin") and Mr. Piao Xingfeng ("Mr. Piao"), the ultimate beneficial owner of entire issued share capital of Dawin ("Mr. Piao") entered into a subscription agreement (the "Dawin Subscription Agreement"), pursuant to which Dawin conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, approximately 45,000,000 new Shares at the subscription price of HK$0.6084 per Share under general mandate at the total consideration of approximately HK$27.4 million, which was settled by way of set off against the equivalent amount of the outstanding loan amount of the unsecured loan facilities of up to US$8 million granted by Mr. Piao to the Company pursuant to the loan agreement dated 7 June 2018 entered into between the Company as borrower and Mr. Piao as lender, as amended and supplemented by the supplemental agreements dated 14 September 2018 and 28 January 2019 entered into by the same parties.

(ii) During the year, the Group entered into new lease agreements for the use of office premises, motor vehicles and office equipment for 2 to 5 years. On the lease commencement, the Group recognised HK$12,230,766 of right-of-use assets and HK$12,230,766 lease liabilities.

52. EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 coronavirus ("CONVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The CONVID-19 outbreak has disrupted the supply chains of global auto industry which decreased the passenger vehicle sales in China by 92% in the first half of February 2020. The slowdown in auto industry will affect the ADAS and autonomous driving industry in the first half of 2020. In light of the above, together with the travel restrictions in the PRC, Hong Kong and Europe which affected consumer sentiment in auto industry since February 2020, such events may have significant impact on the Group's operations and financial results in the first half of 2020.

Save as disclosed herein, no subsequent events occurred after 31 December 2019 and up to the date of this annual report, which may have a significant effect on the assets and liabilities of future operations of the Group.

53. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

In addition, the comparative statement of profit or loss has been restated as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period.

54. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 May 2020.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2019

	For the year ended 31 December				
	2015 HK$	2016 HK$	2017 HK$	2018 HK$	**2019** **HK$**
Continuing operations:					
Operating results					
Revenue	194,606,323	216,801,681	202,692,616	457,237,213	**781,801,363**
Loss before taxation	(199,461,182)	(40,362,088)	(80,846,051)	(130,077,538)	**(311,124,041)**
Taxation	(1,851,358)	2,564,082	10,322,568	1,608,306	**11,839,096**
Loss for the year	(201,312,540)	(37,798,006)	(70,523,483)	(128,469,232)	**(299,284,945)**
Attributable to:					
Owners of the Company	(144,698,559)	(30,608,215)	(75,283,337)	(122,384,844)	**(298,492,195)**
Non-controlling interests	(56,613,981)	(7,189,791)	4,579,854	(6,084,388)	**(792,750)**
Loss for the year	(201,312,540)	(37,798,006)	(70,523,483)	(128,469,232)	**(299,284,945)**
Loss per share – Basic and diluted	(17.18) cents	(3.30) cents	(8.11) cents	(11.69) cents	**(15.47) cents**
Assets and liabilities					
Non-current assets	152,883,908	260,742,587	699,594,870	661,130,933	**1,483,064,095**
Net current assets	379,284,814	276,977,226	172,154,333	120,182,327	**(656,074,041)**
Total assets less current liabilities	532,168,722	537,719,813	871,749,203	781,313,260	**826,990,054**
Non-current liabilities	(14,541,595)	(57,335,132)	(338,749,109)	(333,894,129)	**(226,150,470)**
Net assets	517,627,127	480,384,681	533,000,094	447,419,131	**600,839,584**
Capital and reserves					
Share capital	9,281,849	9,281,849	9,281,849	13,231,849	**20,636,153**
Reserves	531,707,336	517,662,384	478,837,851	404,795,989	**552,952,938**
Equity attributable to owners of the Company	540,989,185	526,944,233	488,119,700	418,027,838	**573,589,091**
Non-controlling interests	(23,362,058)	(46,559,552)	44,880,394	29,391,293	**27,250,493**
Total equity	517,627,127	480,384,681	533,000,094	447,419,131	**600,839,584**