比速科技集團國際有限公司

Bisu Technology Group International Limited

(Formerly known as Excel Development (Holdings) Limited)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1372)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Directors**") of Bisu Technology Group International Limited (the "**Company**") hereby announces the consolidated financial results of the Company and its subsidiaries (collectively refer to as the "**Group**") for the year ended 31 December 2017, together with comparative figures for the nine month ended 31 December 2016.

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2017 *HK$'000*	For the nine months ended 31 December 2016 *HK$'000*
Revenue	**2,026,599**	2,145,926
Gross profit	**188,950**	217,463
Gross profit margin	**9.3%**	10.1%
EBITDA *(Note)*	**204,520**	261,023
Profit attributable to owners of the parent	**37,713**	90,152
Total assets	**2,509,552**	2,594,815
Total liabilities	**1,806,938**	2,043,443
Net assets	**702,614**	551,372

Note: Profit before income tax, depreciation and amortisation, interest income, finance costs.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	**Year ended 31 December 2017** *HK$'000*	Nine months ended 31 December 2016 *HK$'000*
REVENUE	*5*	**2,026,599**	2,145,926
Cost of sales		**(1,837,649)**	(1,928,463)
Gross profit		**188,950**	217,463
Other income and gains	*5*	**26,241**	8,244
Administrative expenses		**(52,109)**	(41,083)
Research and development costs		**(23,140)**	(4,839)
Finance costs	*6*	**(67,139)**	(48,277)
Change in fair value of a financial asset at fair value through profit or loss	*13*	**(2,911)**	(6,725)
PROFIT BEFORE TAX	*7*	**69,892**	124,783
Income tax expense	*8*	**(32,179)**	(34,631)
PROFIT FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		**37,713**	90,152
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**113,529**	(78,126)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		**113,529**	(78,126)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT		**151,242**	12,026
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	*10*		
Basic *(HK cents)*		**18.9**	45.1
Diluted *(HK cents)*		**16.6**	27.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**44,816**	45,263
Goodwill	*11*	**498,343**	463,257
Intangible assets	*12*	**556,230**	569,171
Deposits		**566**	—
Total non-current assets		**1,099,955**	1,077,691
CURRENT ASSETS			
Financial asset at fair value through profit or loss	*13*	—	2,911
Inventories		**62,776**	50,235
Gross amount due from customers for contract work		**66,530**	27,120
Accounts and bills receivables	*14*	**1,193,132**	1,392,597
Tax recoverable		—	3,177
Prepayments, deposits and other receivables		**18,536**	16,185
Cash and cash equivalents		**68,623**	24,899
Total current assets		**1,409,597**	1,517,124
CURRENT LIABILITIES			
Accounts payable	*15*	**669,677**	931,748
Accruals of costs for contract work		**63,867**	91,009
Tax payable		**13,210**	28,490
Other payables and accruals		**57,475**	64,480
Interest-bearing bank and other borrowings		**46,433**	20,000
Convertible bonds	*16*	**387,665**	—
Total current liabilities		**1,238,327**	1,135,727
NET CURRENT ASSETS		**171,270**	381,397
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,271,225**	1,459,088

	Notes	**2017**	2016
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Convertible bonds	*16*	**—**	359,818
Promissory notes	*17*	**473,918**	453,938
Deferred tax liabilities		**94,693**	93,960
Total non-current liabilities		**568,611**	907,716
Net assets		**702,614**	551,372
EQUITY			
Equity attributable to owners of the parent			
Share capital		**2,000**	2,000
Equity component of convertible bonds		**390,716**	390,716
Reserves		**309,898**	158,656
Total equity		**702,614**	551,372

NOTES TO FINANCIAL RESULTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

Bisu Technology Group International Limited (formerly known as Excel Development (Holdings) Limited) is an exempted company with limited liability incorporated in the Cayman Islands. The registered office address of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at 21st Floor, 1 Duddell Street, Central, Hong Kong.

During the reporting period, the Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the following principal activities:

- Development, production and sale of the automotive engines (the "**Automotive Engines Business**").
- Civil engineering works and building construction and maintenance works (the "**Civil Engineering and Construction Business**").

In the opinion of the directors, the immediate holding company and the ultimate holding company is Youth Force Asia Ltd., a company incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chongqing Bisu Yunbo Motor Technology Limited*# ("**Bisu Yunbo**")	the People's Republic of China ("**PRC**")	RMB60,000,000	—	100	Development, production and sale of automotive engines
Excel Engineering Company Limited	Hong Kong	HK$23,288,000	—	100	Civil engineering works and building construction and maintenance works
Excel Construction Development Limited	Hong Kong	HK$1	—	100	Leasing of equipment for construction works

* Registered as a limited liability company under PRC law.

The English name of this company represents the best effort made by the management of the Company to directly translate its Chinese name as no official English name has been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year/period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. It has been prepared under the historical cost convention, except for a financial asset at fair value through profit or loss which has been measured at fair value.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated.

Owing to the change of the Group's financial year end date from 31 March to 31 December pursuant to the resolution of the board of directors of the Company dated 30 December 2016, the consolidated financial statements of the Company for the period ended 31 December 2016 cover a period of nine months from 1 April to 31 December 2016. Accordingly, the comparative amounts presented for the current year's consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows and related notes, which were prepared for the nine months ended 31 December 2016, are not comparable.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on the consolidated financial statements. While the amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the 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.

Construction, renovation and other contracts

Revenue and profit recognition on contract work is dependent on the estimation of the total outcome of the construction contract, as well as the work performed to date. Based on the Group's past experience and the nature of the contract activities undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and the revenue can be reliably estimated. As a result, until this point is reached, the amount due from customers for contract work will not include profit which the Group may eventually realise from the work performed to date. In addition, actual outcomes in terms of total contract costs and/or revenue may be higher or lower than those estimated at the end of each reporting period, which would affect the revenue and profit recognised in future years.

Significant assumptions are required to estimate the total budgeted contract costs and the recoverable variation works that will affect whether any provision is required for foreseeable losses. The estimates are made based on past experience and knowledge of the project management.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK$498,343,000 (2016: HK$463,257,000). Further details are given in note 11.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of accounts and bills receivables, and other receivables. The identification of doubtful debts requires directors' estimates. Where the expectation is different from the original estimate, the difference will impact on the carrying values of the accounts and bills receivables and other receivables and doubtful debt expenses in the period in which the estimate has been changed.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and service and has two reportable operating segments as follows:

- Automotive engines segment — development, production and sale of automotive engines
- Civil engineering and construction segment — civil engineering works and building construction and maintenance works

Management monitors the results of the Group's operating segments separately for the purpose of making decision about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except that finance costs as well as head office and corporate expenses are excluded from such measurement.

	Automotive engines		Civil engineering and construction		Total	
	Year ended 31 December 2017	Nine months ended 31 December 2016	**Year ended 31 December 2017**	Nine months ended 31 December 2016	**Year ended 31 December 2017**	Nine months ended 31 December 2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**1,478,266**	1,769,966	**548,333**	375,960	**2,026,599**	2,145,926
Segment results	**147,880**	204,342	**1,236**	(6,908)	**149,116**	197,434
Corporate and unallocated income					**15,160**	—
Corporate and unallocated expenses					**(27,245)**	(24,374)
Finance costs					**(67,139)**	(48,277)
Profit before tax					**69,892**	124,783
Other segment information:						
Capital expenditure						
— operating segment	**2,065**	3,057	**36**	97	**2,101**	3,154
— unallocated					**31**	1,644
					2,132	4,798
Bank interest income						
— operating segment	**2**	6	**5**	1	**7**	7
Depreciation						
— operating segment	**4,502**	3,712	**578**	428	**5,080**	4,140
— unallocated					**662**	279
					5,742	4,419
Amortisation of intangible assets	**61,754**	83,551	**—**	—	**61,754**	83,551

Geographical information

(a) Revenue from external customers

	Year ended 31 December 2017 *HK$'000*	Nine months ended 31 December 2016 *HK$'000*
PRC	**1,478,266**	1,769,966
Hong Kong	**548,333**	375,960
	2,026,599	2,145,926

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

(b) Non-current assets

	31 December 2017 *HK$'000*	31 December 2016 *HK$'000*
PRC	**1,098,206**	1,075,768
Hong Kong	**1,749**	1,923
	1,099,955	1,077,691

The non-current asset information above is based on the location of assets.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year/period, is set out below:

	Year ended 31 December 2017 *HK$'000*	Nine months ended 31 December 2016 *HK$'000*
Customer A#	**608,296**	965,651
Customer B#	**733,617**	803,360

\# These customers are under the automotive engines segment.

Except for the aforesaid, no revenue from a single external customer accounted for 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the appropriate proportion of contract revenue from construction, renovation and other contracts and the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December 2017 *HK$'000*	Nine months ended 31 December 2016 *HK$'000*
Revenue		
Sales of goods	**1,478,266**	1,769,966
Contract revenue	**548,333**	375,960
	2,026,599	2,145,926
Other income and gains		
Interest income	**7**	7
Consultancy fee income	**2,120**	1,200
Rental income	**5,150**	6,350
Government subsidies*	**2,475**	36
Gain on disposal of items of property, plant and equipment	**—**	1
Gain on modification of promissory notes	**15,160**	—
Sundry income	**1,329**	650
	26,241	8,244

* Various government grants have been received for the business development in Chongqing Province, PRC. There are no unfulfilled conditions or contingencies relating to these subsidies.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2017	Nine months ended 31 December 2016
	HK$'000	*HK$'000*
Interest on bank and other borrowings	**4,152**	1,413
Interest on promissory notes	**35,140**	27,362
Imputed interest on convertible bonds	**27,847**	19,502
	67,139	48,277

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Note	**Year ended 31 December 2017**	Nine months ended 31 December 2016
		HK$'000	*HK$'000*
Cost of sales			
Cost of inventories sold		**1,244,429**	1,472,732
Amortisation of intangible assets	*12*	**61,754**	83,551
Contract costs		**531,466**	372,180
		1,837,649	1,928,463
Depreciation*		**5,742**	4,419
Auditor's remuneration		**2,080**	1,950
Research and development costs			
— current period expenditure		**23,140**	4,839
Employee benefits expense (excluding directors' and chief executive's remuneration)*:			
Wages and salaries		**46,440**	40,497
Pension scheme contributions (defined contribution schemes)		**3,492**	2,502
		49,932	42,999
Minimum lease payments under operating leases		**3,948**	2,449

* For the year ended 31 December 2017, depreciation and employee benefit expense of HK$4,109,000 (Nine months ended 31 December 2016: HK$3,799,000) and HK$26,544,000 (Nine months ended 31 December 2016: HK$22,410,000), respectively, are included in cost of inventories sold and contract costs provided above.

8. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% (Nine months ended 31 December 2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year/period. Bisu Yunbo, a wholly-owned subsidiary of the Group in the PRC, is subject to a preferential corporate income tax ("**CIT**") rate of 15.0% (Nine months ended 31 December 2016: 15.0%).

	Year ended 31 December 2017	Nine months ended 31 December 2016
	HK$'000	*HK$'000*
Current charge for the year/period		
Hong Kong profits tax	**12**	—
PRC CIT	**31,434**	43,810
Deferred	**733**	(9,179)
Total tax charge for the year/period	**32,179**	34,631

A reconciliation of the tax expense applicable to profit before tax at the statutory/applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December 2017	Nine months ended 31 December 2016
	HK$'000	*HK$'000*
Profit before tax	**69,892**	124,783
At the statutory/applicable rates of different jurisdictions	**30,336**	46,311
Withholding tax on the distributable profits of the Group's PRC subsidiary	**10,000**	3,349
Lower tax rate enacted by local authority	**(20,967)**	(28,906)
Income not subject to tax	**(2,505)**	(23)
Expenses not deductible for tax	**15,512**	11,432
Tax losses not recognised	**6**	2,468
Tax losses utilised from previous periods	**(203)**	—
Tax charge at the Group's effective tax rate	**32,179**	34,631

9. DIVIDEND

The directors do not recommend the payment of any final dividend in respect of the year (Nine months ended 31 December 2016: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to owners of the parent of HK$37,713,000 (Nine months ended 31 December 2016: HK$90,152,000) and the weighted average number of ordinary shares in issue during the reporting period.

The calculation of the diluted earnings per share amounts is based on the profit for the year/period attributable to the owners of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year/period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December 2017	Nine months ended 31 December 2016
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the parent, used in basic earnings per share calculation	**37,713**	90,152
Interest on convertible bonds	**27,847**	19,502
Profit attributable to owners of the parent before interest on convertible bonds	**65,560**	109,654

The calculations of basic and diluted earnings per share are based on:

	Number of shares	
	Year ended 31 December 2017	Nine months ended 31 December 2016
Shares		
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings per share calculation	**200,000,000**	200,000,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**30,877**	6,139
Convertible bonds	**195,000,000**	195,000,000
Weighted average number of ordinary shares in issue during the year/period used in diluted earnings per share calculation	**395,030,877**	395,006,139

11. GOODWILL

	2017	2016
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January/1 April	**463,257**	490,948
Exchange realignment	**35,086**	(27,691)
At 31 December	**498,343**	463,257

Goodwill acquired through a business combination is allocated to the cash-generating unit of the Automotive Engines Business (the "**Automotive Engines CGU**") for impairment testing.

Impairment test of goodwill

The recoverable amount of the Automotive Engines CGU was determined based on a value in use calculation using cash flow projections of financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections was 24.48% (2016: 21.26%). Management has determined the sales growth rate with reference to the sales volume stipulated in the Automotive Engine Sales Framework and Supplemental Agreements (as defined in note 12). The cash flow projections of the Automotive Engines CGU beyond the five-year period of financial budgets are extrapolated using a growth rate of 2.5% (2016: 3.0%), which did not exceed the long term average growth rate of the industry. The discount rate used is before tax and reflects specific risks relating to the unit.

Assumptions were used in the value in use calculation of the Automotive Engines CGU for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Sales growth rates — The sales growth rates on product types of the Group are estimated with reference to the sales volume stipulated in the Automotive Engine Sales Framework and Supplemental Agreements (as defined in note 12).

Discount rate — The discount rate used is before tax and reflects specific risks relating to the Automotive Engines CGU.

12. INTANGIBLE ASSETS

	Customer contracts *HK$'000*
Year ended 31 December 2017	
Net carrying amount:	
At 1 January 2017	569,171
Amortisation provided during the year *(note 7)*	(61,754)
Exchange realignment	48,813
At 31 December 2017	556,230
At 31 December 2017:	
Cost	706,393
Accumulated amortisation	(150,163)
Net carrying amount	556,230
Nine months ended 31 December 2016	
Net carrying amount:	
At 1 April 2016	687,523
Amortisation provided during the period *(note 7)*	(83,551)
Exchange realignment	(34,801)
At 31 December 2016	569,171
At 31 December 2016:	
Cost	656,660
Accumulated amortisation	(87,489)
Net carrying amount	569,171

Customer contracts represent certain automotive engine sales framework agreements (the "**Automotive Engine Sales Framework Agreements**") entered into by the Automotive Engines Group (as defined in note 13) in 2015 and pursuant to which the related customers agreed to procure pre-agreed quantities of engines from the Automotive Engines Group from 2016 to 2020. In February 2018, the Automotive Engines Group entered into certain supplemental Automotive Engine Sales Framework Agreements (the "**Supplemental Agreements**") with the related customers, pursuant to which the customer contract period was extended to 2022, and the pre-agreed quantities of engines were adjusted based on the customers' latest production needs. The customer contracts are amortised to profit or loss under the unit of production method over the relevant contract period.

13. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	Contingent consideration — profit guarantee
	HK$'000
At 1 April 2016	9,636
Change in fair value	(6,725)
At 31 December 2016 and 1 January 2017	2,911
Change in fair value	(2,911)
At 31 December 2017	–

Pursuant to the sale and purchase agreement (the "**Engines SPA**") entered into by the Group and Power Expert Global Limited ("**Power Expert**") for the acquisition of Well Surplus Enterprises Limited and its subsidiaries (the "**Automotive Engines Group**") in October 2015 (the "**Engines Acquisition**") and the third supplemental sale and purchase agreement (the "**3rd Engines SPA**") in December 2017, Power Expert has warranted and guaranteed to the Group that the audited consolidated profit after tax of the Automotive Engines Group (excluding any fair value adjustments arising from purchase price allocation upon the completion of the Engines Acquisition by the Group) as prepared in accordance with HKFRSs, for the two years ended 28 February 2017 and 2018 shall not be less than the aggregate sum of HK$170,000,000 (the "**1st Guaranteed Profit**") and HK$230,000,000 (the "**2nd Guaranteed Profit**") (i.e. in aggregate HK$400,000,000) (the "**Total Guaranteed Profit**").

In the event that the Total Guaranteed Profit has not been achieved, Power Expert shall compensate the Group. Details of the calculation of the compensation are set out in the Company's announcement dated 31 December 2017 and the Company's circular dated 20 March 2018.

As at 31 December 2017, the directors of the Company determined that the fair value of the profit guarantee was HK$ Nil as the Total Guaranteed Profit has already been met subsequent to the end of the reporting period.

As at 31 December 2016, the fair value of the profit guarantee was HK$2,911,000, which was determined by Vigers Appraisal and Consulting Limited, an independent professional valuer, based on the probabilistic flow method in which the cash flows for each year represent the difference between the guaranteed profit and the projected net profit. The directors of the Company estimated the projected net profits of the Automotive Engines Group under two different scenarios with respective scenario probabilities. The fair value of the profit guarantee was the probability-weighted average of the present values of the shortfalls between the guaranteed profits and the projected net profits under the two scenarios. A discount rate of 17.09% has been used to calculate the present value of cash flows of the profit guarantee.

Below is a summary of a significant unobservable input to the valuation of the contingent consideration together with a quantitative sensitivity analysis as at 31 December 2016:

	Valuation technique	**Significant unobservable input**	**Sensitivity of fair value to the input**
31 December 2016			
Discounted financial instrument in respect of the profit guarantee	Probabilistic flow method	Discount rate 17.09%	5% increase/decrease in discount rate would result in decrease in fair value by HK$138,000/increase in fair value by HK$151,000

14. ACCOUNTS AND BILLS RECEIVABLES

Accounts and bills receivables represented receivables for contract work and sale of automotive engines. The payment terms of contract work receivables are stipulated in the relevant contracts and the credit period is generally one month. The payment terms for receivables arising from sales of automotive engines are mainly on credit and the credit period is generally three months. The payment terms of bills receivable are stipulated in the relevant bills issued by bank and their maturity periods normally range from 90 to 180 days. The carrying amounts of accounts and bills receivables approximate to their fair values.

	2017	2016
	HK$'000	*HK$'000*
Accounts receivable	**1,191,019**	1,320,537
Bills receivable	**2,113**	72,060
	1,193,132	1,392,597

As at 31 December 2017, retentions receivable included in accounts receivable amounted to HK$175,761,000 (2016: HK$155,700,000) and are repayable on terms ranging from two to three years.

The ageing analysis of the accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
One to three months	**1,039,876**	1,320,103
Four to six months	**150,379**	225
Over six months	**764**	209
	1,191,019	1,320,537

The ageing analysis of the accounts receivable that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	*HK$'000*
Past due but not impaired:		
One to three months past due	**154,384**	5,324
Four to six months past due	**236**	225
Over six months past due	**199**	209
	154,819	5,758
Neither past due nor impaired	**1,036,200**	1,314,779
	1,191,019	1,320,537

As at 31 December 2017 and 31 December 2016, the bills receivable, based on the issue date, aged from one to two months.

Accounts receivable that were past due but not impaired relate to a few number of major customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Accounts receivable that are neither past due nor impaired relate to a number of independent customers for whom there was no recent history of default.

15. ACCOUNTS PAYABLE

An ageing analysis of the accounts payable as at the end of each reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Current to three months	**663,081**	927,251
Four to six months	**4,217**	3,262
Over six months	**2,379**	1,235
	669,677	931,748

At 31 December 2017, retentions payable included in accounts payable amounted to HK$13,103,000 (2016: HK$7,978,000) and are normally settled on terms ranging from two to three years. The carrying amounts of accounts payable approximate to their fair values.

Accounts payable are non-interest-bearing and are normally settled on terms ranging from 7 to 120 days. The payment terms are stipulated in the relevant contracts.

16. CONVERTIBLE BONDS

The convertible bonds recognised in the consolidated statement of financial position are bifurcated into two components for accounting purposes, namely the liability component and the equity component, and the movements in these components during the reporting period are as follows:

	Liability component	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2016	340,316	390,716	731,032
Interest expense *(note 6)*	19,502	—	19,502
At 31 December 2016 and 1 January 2017	359,818	390,716	750,534
Interest expense *(note 6)*	27,847	—	27,847
At 31 December 2017	387,665	390,716	778,381

The details of the outstanding principal amount of the convertible bonds is as follows:

	HK$'000
At 1 April 2016, 31 December 2016, 1 January 2017 and 31 December 2017	390,000

A reconciliation of the principal amount of the convertible bonds to their fair value upon completion of the Engines Acquisition is as follows:

	HK$'000
Principal amount	390,000
Fair value adjustment	336,698
Fair value	726,698

On 4 February 2016, the Company issued zero coupon convertible bonds with an aggregate principal amount of HK$390,000,000 to Power Expert as part of the consideration for the Engines Acquisition. The maturity date of the convertible bonds is on the second anniversary of the date of issuance (i.e. 3 February 2018). The convertible bonds bear no interest on the principal amount. No security or guarantee is granted in respect of the convertible bonds. The convertible bonds can be converted into 195,000,000 ordinary shares in the Company at the initial conversion price of HK$2.00 per conversion share (subject to adjustment pursuant to the terms of the convertible bonds). The Company may at any time before the maturity date by written notice redeem the convertible bonds at 100% of the principal amount. Any amount of the convertible bonds which is redeemed by the Company will forthwith be cancelled. At 31 December 2017 and 31 December 2016, no convertible bonds were converted and the outstanding principal amount of the convertible bonds was HK$390,000,000.

In March 2018, the Group has completed the extension of the maturity date of the convertible bonds for 2 years from 4 February 2018 to 4 February 2020 (the "**CB Extension**"). Further details of the CB Extension are set out in the Company's announcement dated 31 December 2017 and the Company's circular dated 20 March 2018.

As at 31 December 2017 and 31 December 2016, the convertible bonds with an aggregate principal amount of HK$390,000,000 were deposited with an escrow agent in favour of the Company as security for the 1st Guaranteed Profit and the 2nd Guaranteed Profit. The convertible bonds in the principal amounts of HK$165,750,000 and HK$224,250,000 shall be released to Power Expert if the audited consolidated profits after tax of the Automotive Engines Group for the two years ended 28 February 2017 and 2018 are equal to or more than the 1st Guaranteed Profit and the 2nd Guaranteed Profit, respectively, after the issue of the auditors' certificate for each period.

17. PROMISSORY NOTES

	2017	2016
	HK$'000	*HK$'000*
First Note	**199,893**	192,170
Second Note	**274,025**	261,768
	473,918	453,938

On 4 February 2016, the Company issued two promissory notes with face values of HK$174,250,000 (the "**First Note**") and HK$235,750,000 (the "**Second Note**") in favour of Power Expert as part of the consideration for the Engines Acquisition. Both the First Note and Second Note carry interest at a rate of 10% per annum. The outstanding principal amounts plus any accrued interest will be repayable on the maturity date falling on the second anniversary of the date of the First Note and Second Note, i.e. 4 February 2018.

On 31 December 2017, the Company has extended the maturity date of the First Note and Second Note for 2 years from 4 February 2018 to 4 February 2020 and the interest rate was adjusted downwards from 10% to 8% per annum, all accrued and outstanding interest shall be repaid on the extended maturity date of 4 February 2020.

The gain on modification of promissory notes amounted to HK$15,160,000 was recognised as other income for the year ended 31 December 2017 (Note 5).

The carrying amounts of the First Note and Second Note at year end were computed by discounting the face values of the notes by the effective interest rate and the outstanding interest payable.

As at 31 December 2017 and 31 December 2016, the promissory notes with an aggregate face value of HK$410,000,000 were deposited with an escrow agent in favour of the Company as security for the 1st Guaranteed Profit and the 2nd Guaranteed Profit. The promissory notes in the face values of HK$174,250,000 and HK$235,750,000 shall be released to Power Expert if the audited consolidated profits after tax of the Automotive Engines Group for the two years ended 28 February 2017 and 2018 are equal to or more than the 1st Guaranteed Profit and the 2nd Guaranteed Profit, respectively, after the issue of the auditors' certificate for each period.

18. CONTINGENT LIABILITIES

(a) At 31 December 2017, the guarantees given by the Group to certain banks and a licensed corporation in respect of performance bonds in favour of certain contract customers amounted to HK$23,105,000 (2016: HK$24,446,000).

(b) In the ordinary course of the Group's construction business, the Group has been subject to a number of claims due to personal injuries suffered by employees of the Group or the Group's subcontractors in accidents arising out of and in the course of their employment. The directors are of the opinion that such claims are well covered by insurance and would not result in any material adverse impact on the financial position or results and operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL REVIEW

During the year under review, the Group has engaged in two business segments, which are (i) the Automotive Engines Business; and (ii) the Civil Engineering and Construction Business.

The Group has record a decline both in terms of revenue and profit in 2017. For the year ended 31 December 2017, the Group recorded a consolidated revenue of approximately HK$2,026.6 million (nine months ended 31 December 2016: approximately HK$2,145.9 million). Profit for the year attributable to shareholders was approximately HK$37.7 million (nine months ended 31 December 2016: profit of approximately HK$90.2 million). The decrease in business performance was mainly due to the changes in the preferential vehicle tax policies and market competition.

Gross profit decreased to approximately HK$189.0 million (nine months ended 31 December 2016: approximately HK$217.5 million) with the gross profit ratio at approximately 9.3%. The decrease in gross profit ratio derived from the Automotive Engines Business was the result of decline in sales orders which affected the economy of scale.

Basic and diluted earnings per share for the year ended 31 December 2017 were approximately HK$18.9 cents and HK$16.6 cents respectively (nine months ended 31 December 2016: basic and diluted earnings per share of approximately HK$45.1 cents and HK$27.8 cents).

Automotive Engines Business

In 2017, the national economic growth rate remained within a reasonable range, with strong signs showing continued stability and progress in the economy as reflected in steady growth, increased income, and optimized structure. The stability, coordination and sustainability in economic development have been improved. According to the data released by the National Bureau of Statistics, in the first three quarters of 2017, the growth rate of GDP in China rose slightly by 0.2% as compared with that of the same period in 2016, up by 6.9% year-on-year which was better than the full-year economic growth target of 6.5% set in the Report on the Work of the Government. China has been constantly adjusting and optimizing its economic structure, the driver of economic development has been in progressive transformation, and consumption has become the main driving force of economic growth and further supported the economic growth.

Under the influence of the decline in the preferential taxation policy on purchase for cars with displacement of 1.6L or lower, which raised the tax rate from 5% to 7.5% and to 10% in 2018, certain car sales that might have concluded in the first half of 2017 had been brought forward in 2016, leading to a slowdown in the overall sales volume in the first half of 2017. In the second half of the year, although the sale volume of automobiles increased, the overall sales volume of the whole year recorded a certain decline.

The Group aims to produce and distribute high quality products at a competitive price point through extensive research and development to identify innovative solutions to increase cost efficiency and product quality. Through a selective procurement process, the Group sources materials from renowned suppliers who can consistently deliver top notch materials in an efficient and cost-effective manner. As consumers continue to demand higher capacity engines in motor vehicles, the Group is well-positioned to take advantage of a robust growth through both the regular and turbo engines.

During the year ended 31 December 2017, the revenue of the Automotive Engines Business was approximately HK$1,478.3 million (nine months ended 31 December 2016: approximately HK$1,770.0 million), represented approximately 72.9% of the total revenue of the Group. Average monthly production decreased approximately 52.8% from 16,177 units per month for the nine months ended 31 December 2016 to 7,640 units per month for the year ended 31 December 2017. Notwithstanding the sale quantities was significantly deceased by approximately 52.8%, the revenue merely deceased by approximately 16.5%, which were mainly attributable to: i) the policy such as the cancellation of the preferential vehicle tax policies; and ii) the change in product mix (i.e. higher proportion of higher-priced models and thus higher average selling price.)

Excluding the amortisation of intangible assets amounting to approximately HK$61.8 million (nine months ended 31 December 2016: approximately HK$83.6 million), the gross profit margin of the Automotive Engines Business decreased from approximately 16.8% for the nine months ended 31 December 2016 to approximately 15.8% for the year ended 31 December 2017.

The segment results of the Automotive Engines Business reached approximately HK$200.4 million (nine months ended 31 December 2016: approximately HK$275.4 million) excluding the amortisation of intangible assets and deferred tax credit amounting to approximately HK$61.8 million (nine months ended 31 December 2016: approximately HK$83.6 million) and approximately HK$9.3 million (nine months ended 31 December 2016: approximately HK12.5 million) respectively, which merely represented an accounting treatment on the acquisition but no cash flow effect to the Group.

Pursuant to the Engines SPA dated 12 October 2015, 20 November 2015, 15 January 2016 and 31 December 2017 in relation to the acquisition of the Automotive Engines Business, the vendor has irrevocably warranted and guaranteed to the Company that the audited profit after tax of the Automotive Engines Business shall not be less than the aggregate sum of HK$170.0 million and HK$230.0 million for the two years ended 28 February 2017 (the "**1st Profit Guarantee Period**") and 2018 (the "**2nd Profit Guarantee Period**") respectively. During the year ended 31 December 2017, the aggregate sum of the Total Guaranteed Profit were already achieved. Although under the influence of the change of preferential taxation on purchase for cars, driven by the progressively increasing demand and consumer spending on automotive and positive results during the reporting period, the Board is confident of good prospects with healthy and sustainable growth in the Automotive Engines Business and expect the revenue stream of the Group would be further recovered next year.

Civil Engineering and Construction Business

All of the Group's contracts undertaken for both civil and building construction business were for customers which are independent third parties including certain departments of the Government of Hong Kong, public utilities companies and private organisations in Hong Kong.

During the year ended 31 December 2017, the revenue of Group's civil engineering works and building construction and maintenance works were approximately HK$548.3 million (nine months ended 31 December 2016: approximately HK$376.0 million). For the year under review, included in the turnover was: (i) revenue from civil engineering works of approximately HK$455.8 million (nine months ended 31 December 2016: HK$357.4 million); and (ii) revenue from building construction and maintenance works of approximately HK$92.5 million (nine months ended 31 December 2016: approximately HK$18.6 million).

The overall gross profit margin of this segment was 3.1% for the year ended 31 December 2017 (nine months ended 31 December 2016: 1.0%). As of 31 December 2017, the Group had 18 significant projects in progress. Two of them were building construction and maintenance projects while the remaining were civil engineering construction projects.

As of 31 December 2017, the total contract sum and the total outstanding values of the Group's substantial projects in progress were approximately HK$2,272.0 million and HK$491.0 million respectively.

During the year ended 31 December 2017, the Group was awarded with the following new substantial contracts:

- Provision of Barrier-free Access Facilities for Highway Structures — Phase 3 Contract 8
- Provision of Barrier-free Access Facilities for Highway Structures — Phase 3 Contract 9
- Term Contract for Provision of Civil Engineering Works for the Telecommunication Networks and Associated Facilities
- Provision of Integrated Field Works for Field Services in NTC region
- Foundation, Site Formation, Road & Drainage for Public Rental Housing Development at Queen's Hill Site 1, Fanling, Phases 1, 2 and 5

PROSPECT

The first half of 2017 witnessed the slowdown of the growth of China's auto markets. With the dampened influence of the 1.6L policy for passenger vehicles, the market demand was on the gradual rise in the second half of 2017. It is predicted that the rise will follow the trend of going low at first and then high later and maintain the growth rate of 3–5% in the next year. As for commercial vehicles, we hold the optimistic view for the whole year as the governance on the vehicle carrying capacity and size continues to be favourable to market demand.

The Automotive Engines Business became a principal activities of the Group for the year ended 31 December 2017. Although the influence of the policy such as the cancellation of the preferential vehicle tax policies, the sales of automotive engines of the Group experienced decrease to a certain extent during the year. With strong support from the Chinese government, this industry is expected to experience steady and substantial growth over the next five years. The key drivers for future growth include China's substantial domestic demand, particularly in rural regions, government support, and the development of more foreign markets. The Group remains optimistic on the demand of automotive engines and thus stimulating the Automotive Engines Business.

In the meantime, the Group will continuously focus on research and development to develop automotive engines with high quality and advanced features to enhance market penetration and brand recognition. Also, expanding distribution channels and sourcing other suppliers to provide materials with stable quality and with lower cost are the future goals to enhance competitiveness from the automotive engines market. The Group strives to develop the Automotive Engines Business.

On the other hand, although the operating environment of the construction business is expected to remain tough in the coming years such as continuously rising wages and cost of construction materials and shortage of skilled labour, the Board is confident that the Group would be capable of securing promising business opportunities given its vast experience in handling a wide variety of construction works. The Group will continue to adopt a prudent approach when submitting new tenders. In addition, the Group will make use of its competitive strengths by continuing to improve its quality of service and competitiveness to capitalise on the trend of increasing civil engineering construction works projects in Hong Kong in the coming years to further strengthen the Group's business growth.

Looking ahead, the Group remains optimistic on the business outlook for the years ahead. Through diversification into the automotive industry with the acquisition of the Automotive Engines Business, the Group believes that the additional streams of revenue will strengthen the financial position of the Group. Despite the current competitive market, the Group will continue to deliver quality products at a competitive price point to achieve sustainable long term growth.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2017 (nine months ended 31 December 2016: Nil).

CAPITAL STRUCTURE, FINANCIAL RESOURCES, LIQUIDITY AND GEARING

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$68.6 million, representing an increase of approximately 175.5% from approximately HK$24.9 million as at 31 December 2016. The increase was mainly attributable to the combined effect of (i) net cash flows generated from financing activities in respect of the Group's interest-bearing bank and other borrowings; and (ii) net cash inflow from operating activities in respect of the Group's business. The Group had not pledged any bank deposits for the bank loans.

The Group's cash and cash equivalents were denominated in HK$ and RMB.

As at 31 December 2017, the total assets were approximately HK$2,509.6 million, representing a decrease of approximately 3.3% from approximately HK$2,594.8 million as at 31 December 2016. The slight decrease was mainly due to the decrease in accounts and bills receivable which decrease represented at approximately HK$199.5 million. It is because the revenue of Automotive Engines Business was decreased.

As at 31 December 2017, the total liabilities were approximately HK$1,806.9 million, representing a decrease of approximately 11.6% from approximately HK$2,043.4 million as at 31 December 2016. Given the acquisition of the Automotive Engines Business, the Company issued convertible bonds and promissory notes at principal amount of HK$390.0 million and HK$410.0 million respectively, as the consideration.

On 31 December 2017, Future Marvel Limited (the "**Purchaser**"), Power Expert and Ms. Weng Guangmin entered into a third supplemental agreement (the "**3rd Supplemental Agreement**") to make certain amendments to the Engines SPA as set out below:

i) the maturity date of the convertible bonds and promissory notes shall be extended for 2 years from 4 February 2018 to 4 February 2020;

ii) the interest rate of the promissory notes shall be adjusted downward from 10.0% to 8.0% per annum for the extension period from 5 February 2018 to 4 February 2020 and all accrued and outstanding interest under the promissory notes shall be repaid on the extended maturity date of 4 February 2020; and

iii) compensation for the 2nd Profit Guarantee Period will be amended (the "**2nd PG Amendment**") to the effect that if the aggregate sum of the actual audited consolidated profit after tax of the Automotive Engines Group for the 1st Profit Guarantee Period and the actual audited consolidated profit after tax of the Automotive Engines Group for the 2nd Profit Guarantee Period (collectively the "**Total Actual Profit**") is less than the aggregate sum of the 1st Guaranteed Profit and the 2nd Guaranteed Profit (i.e. HK$400.0 million), the vendor shall compensate (the "**2nd Period Compensation**") the Purchaser by 3 times of the amount of shortfall, as calculated according to the following formula: 2nd Period Compensation = (Total Guaranteed Profit - Total Actual Profit) x 3. If the Total Actual Profit is equal to or more than the Total Guaranteed Profit, the vendor and the Purchaser shall procure the escrow agent engaged by the Purchaser to release to the vendor the promissory notes in the principal amount of approximately HK$235.8 million and the convertible bonds in the principal amount of approximately HK$224.3 million within 10 business days after the issue of the 2nd auditors' certificate (or such other day as the vendor and the Purchaser may agree).

Further details of which are set out in the Company's announcement dated 31 December 2017 and the Company's circular dated 20 March 2018.

As certain condition precedent in the 3rd Supplemental Agreement have not yet been fulfilled as at 31 December 2017, the convertible bonds were due in 4 February 2018 with non-interest bearing and its carrying amount as at 31 December 2017 was approximately HK$778.4 million (31 December 2016: approximately HK$750.5 million) in which approximately HK$390.7 million was recognised as equity as at 31 December 2016 and HK$387.7 million was recognized as current liabilities as at 31 December 2017. The promissory notes are interest-bearing of 10.0% per annum the interest rate of the promissory notes shall be 8.0% per annum for the extension period from 5 February 2018 to 4 February 2020 and all accrued and outstanding interest under the promissory notes shall be repaid on the extended maturity date of 4 February 2020; and its carrying amount as at 31 December 2017 was approximately HK$473.9 million (31 December 2016: approximately HK$453.9 million). Interest-bearing bank and other borrowings of the Group comprised (1) other loans from independent third parties of HK$42.5 million (31 December 2016: HK$20.0 million) with the contractual interest of 5.0% to 12.0% per annum; and (2) bank loans of HK$3.9 million (31 December 2016: HK$Nil) with an interest rate of the Hong Kong Inter-Bank Offered Rate ("**HIBOR**") plus 2.5% per annum; of which a corporate guarantee was given by the Company on the bank loans. They are repayable within 1 year.

As at 31 December 2017, the Group had banking facilities of HK$34.0 million (31 December 2016: HK$30.0 million) which HK$7.1 million was not utilised and was secured by corporate guarantees.

As at 31 December 2017, the net current assets were approximately HK$171.3 million, representing a decrease of approximately 55.1% from approximately HK$381.4 million as at 31 December 2016. The significant decrease in net current assets was attributable to the convertible bonds due in February 2018. And the net assets were approximately HK$702.6 million, representing an increase of approximately 27.4% from approximately HK$551.4 million as at 31 December 2016.

Current ratio of the Group was maintained at a healthy level at approximately 1.1 as at 31 December 2017 (31 December 2016: approximately 1.3). Current ratio is calculated by dividing current assets by current liabilities.

Gearing ratio is calculated based on the amount of net cash and bank balances (interest-bearing borrowings, liability component of the convertible bonds and promissory notes less cash and cash equivalent) divided by the total equity. As at 31 December 2017, the Group's gearing ratio was therefore approximately 119.5% (31 December 2016: approximately 146.7%).

CONVERTIBLE BONDS

On 4 February 2016, the Company issued zero coupon convertible bonds with an aggregate principal amount of HK$390.0 million to Power Expert as part of the consideration for the acquisition of 100% equity interest in the Automotive Engines Group in October 2015. The maturity date of the convertible bonds is on the second anniversary of the date of issuance (i.e. 3 February 2018). Pursuant to the 3rd Engines SPA dated 31 December 2017, the maturity date of the convertible bond was extended for 2 years from 4 February 2018 to 4 February 2020. The convertible bonds bear no interest on the principal amount. No security or guarantee is granted in respect of the convertible bonds. The convertible bonds can be converted into 195,000,000 ordinary shares in the Company at the initial conversion price of HK$2.00 per conversion share (subject to adjustment pursuant to the terms of the convertible bonds). The Company may at any time before the maturity date by written notice redeem the convertible bonds at 100% of the principal amount. Any amount of the convertible bonds which is redeemed by the Company will forthwith be cancelled. At 31 December 2017 and 31 December 2016, no convertible bonds were converted and the outstanding principal amount of the convertible bonds was HK$390.0 million.

As at 31 December 2017, the convertible bonds with an aggregate principal amount of HK$390.0 million were deposited with an escrow agent in favour of the Company as security for the 1st Guaranteed Profit (i.e. HK$170.0 million for the year ended 28 February 2017) and the 2nd Guaranteed Profit (i.e. HK$230.0 million for the year ended 28 February 2018). The convertible bonds in the principal amounts of approximately HK$165.8 million and HK$224.3 million shall be released to Power Expert if the audited consolidated profits after tax of the Automotive Engines Group for the two years ended 28 February 2017 and 2018 are equal to or more than the 1st Guaranteed Profit and the 2nd Guaranteed Profit, respectively, after the issue of the auditors' certificate for each period.

CONTINGENT LIABILITIES

Detail of the Group's contingent liabilities are set out in note 18 to above.

FOREIGN CURRENCY RISK

Most of the Group's assets and liabilities are denominated in HK$ and RMB, which are the functional currencies of respective group companies. The Group has not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had approximately 896 employees (31 December 2016: 793) in Hong Kong and the PRC. The Group's remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Other staff benefits include bonuses awarded on discretionary basis, mandatory provident fund scheme for Hong Kong employees, state-sponsored retirement plans for the PRC employees.

GRANT OF SHARE OPTIONS

The purpose of the share option scheme of the Company (the "**Share Option Scheme**") is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Company. As part of the remuneration package relating to the appointment of Ms. Liu Yan (the "**Grantee**") as an executive Director and the chief executive officer of the Company, options were granted to the Grantee on 22 December 2016 to subscribe up to 2,000,000 shares of the Company (the "**Options**") at a subscription price of HK$8.12 per share of the Company with a validity period of 3 years. During the option period, the Options may be exercised by the Grantee at any time or times. Ms. Liu Yan has resigned as the chief executive officer of the Company and an executive Director with effect from 1 March 2017 due to other business engagement which requires more of her attention and dedication. According to the Share Option Scheme, the Options automatically lapsed on the date of Ms. Liu Yan ceased to be an eligible participant by reason of voluntary resignation of her directorship.

CHANGE OF COMPANY NAME

Subsequent to the passing of a special resolution in relation to the change of company name by the shareholders of the Company (the "**Shareholders**") at the extraordinary general meeting of the Company held on 16 January 2017, the Certificate of Incorporation on Change of Name of the Company was issued by the Registrar of Companies in the Cayman Islands regarding the change of the English and Chinese names of the Company to "**Bisu Technology Group International Limited**" and "**比速科技集團國際有限公司**" respectively, with effect from 16 January 2017. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 2 February 2017 confirming the registration of the new English and Chinese names of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter

622 of the Laws of Hong Kong) (the "**Completion of Change of Company Name**"). Further details of the Completion of Change of Company Name are set out in the Company's announcements dated 16 January 2017 and 6 February 2017.

CHANGE OF DIRECTORS AND COMMITTEE MEMBER

With effect from 1 March 2017, Mr. Lo Kin Ching Joseph has been appointed as the chairman of the Board (the "**Chairman**") and an executive Director and the chairman of the nomination committee of the Company (the "**Nomination Committee**") (the "**Appointment**"). Ms. Liu Yan has resigned as the chief executive officer of the Company and an executive Director with effect from 1 March 2017 due to other business engagement which requires more of her attention and dedication (the "**Resignation**"). Mr. Wong Hin Shek has ceased to be the Chairman and the chairman of the Nomination Committee, but has been appointed as the chief executive officer of the Company and remains to be an executive Director and a member of the Nomination Committee all with effect from 1 March 2017 (the "**Redesignation**"). Further details of the Appointment, the Resignation and the Redesignation are set out in the Company's announcement dated 1 March 2017.

NO MATERIAL CHANGE

Save as disclosed above, during the year ended 31 December 2017, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the nine months ended 31 December 2016.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017.

Compliance with the Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 11 December 2013, the date on which dealings in its shares first commence on the Stock Exchange.

For the year ended 31 December 2017, the Company has complied with the code provisions set out in the CG Code with the following exception:

Code provision A.4.1 of the CG Code requires that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive Directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

The Company regularly reviews its corporate governance practices to ensure they comply with the CG Code and align with the latest developments.

Model Code for Securities Transactions by Directors of the Company

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2017.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") has reviewed together with the management the accounting principles and policies adopted by the Group, discussed risk management, internal controls and financial reporting matters and the consolidated results of the Group for the year ended 31 December 2017. The Audit Committee comprises three members including Mr. Chan Kai Wing (Chairman), Ms. Chu Yin Yin Georgiana and Mr. Yip Tai Him, all being independent non-executive Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the Company's directors as at the date of this announcement, the Company has maintained the prescribed minimum public float under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there was no other significant event after the reporting period and up to the date of this announcement.

ANNUAL GENERAL MEETING

A notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and dispatched to the Shareholders in the manner as required by the Listing Rules in due course.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year.

The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.bisu-tech.com). The annual report will be dispatched to the Shareholders and will be available on websites of the Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere thanks and gratitude to our management team and staff for their hard work and dedication, as well as our shareholders, business partners and associates, bankers and auditors for their continuous support to the Group.

By order of the Board
Bisu Technology Group International Limited
Lo Kin Ching Joseph
Chairman

Hong Kong, 21 March 2018

As at the date of this announcement, the executive Directors are Mr. Lo Kin Ching Joseph, Mr. Wong Hin Shek and Mr. Xing Bin; and the independent non-executive Directors are Ms. Chu Yin Yin, Georgiana, Mr. Yip Tai Him and Mr. Chan Kai Wing.