比速科技集團國際有限公司

Bisu Technology Group International Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1372)

SUPPLEMENTAL ANNOUNCEMENT REGARDING BUSINESS UPDATE AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the annual report (the "**Annual Report**") of the Company for the year ended 31 December 2018 and the announcement of the Company dated 4 June 2019 (the "**Announcement**"). Unless otherwise defined, capitalised terms used herein shall have the same meanings ascribed to them in the Annual Report.

In addition to the information provided in the Annual Report and the Announcement, the Board would like to provide further information in relation to the total impairment losses of HK$605.8 million for the year ended 31 December 2018.

HK$174.9 million impairment loss on goodwill was recognised during the six months ended 30 June 2018 and the remaining HK$430.9 million impairment loss on intangible assets was recognised during the second half of 2018. The impairment loss on goodwill and intangible assets were HK$174.9 million and HK$430.9 million respectively for the year ended 31 December 2018.

The financial performance of the Automotive Engines Business was worse than expected for the six months ended 30 June 2018 due to the intensifying competition in the passenger vehicle industry in the PRC faced by the Automotive Engines Business Customers leading to a decline in the sales of engines. Therefore, the Group recognised an impairment loss on goodwill of HK$174.9 million for the six months ended 30 June 2018 to reflect the estimated decrease in value of the Automotive Engines Business under the intensifying competitive market faced by the Group's customers. The management of the Company revised the cash flow forecast of the Automotive Engines Business downward in the valuation for the interim report of the Company for the six months ended 30 June 2018 as compared with the valuation for the annual report of the Company for the year ended 31 December 2017 to reflect a reduced demand for the Group's products under the intensifying competition. The impairment loss on intangible assets of HK$430.9 million was due to the overall slowdown of the vehicle market in PRC as well as the financial difficulties encountered by the Automotive Engines Business Customers. The individual impact of the above two factors on the impairment loss were indistinguishable since the management of the Company had considered the combined impact of both factors to further revised the cash flow forecast of the Automotive Engines Business downward in the valuation for the annual report of the Company for the year ended 31 December 2018 as compared with the valuation for the interim report of the Company for the six months ended 30 June 2018.

In determining the impairment loss on goodwill for the six months ended 30 June 2018, the Board took into account the valuation performed by Moore Stephens Advisory Services Limited ("**Moore Stephens**"), an independent valuer, the value in use as at 30 June 2018 and the carrying amount of the cash generating unit ("**CGU**") as at 30 June 2018. The Board discovered that the Automotive Engines Business Customers encountered financial difficulties in the second half of 2018, thus the Board further performed an impairment assessment for the year ended 31 December 2018 with reference to another valuation performed by Moore Stephens (the "**2018 Annual Valuation**"). The Board considered that it was necessary to recognise an impairment loss on goodwill and intangible assets, in light of i) the negative market growth of automobile sales in the PRC in 2018; ii) the financial difficulties encountered by the Automotive Engines Business Customers and; iii) the risk and time required for the Automotive Engines Business Customers to complete the negotiation of the resumption arrangement with all suppliers along the supply chain to resume normal operation.

In performing the impairment assessment for the year ended 31 December 2018, the Board had:

(i) assessed the impairment loss on the intangible assets, which were essentially the value of the automotive engine sales framework agreement and the supplemental agreements with the Automotive Engines Business Customers which would expire in 2022; and the present value of the estimated free cash flow arising from the sales to the Automotive Engines Business Customers from 2019 to 2022 was extracted from the valuation report prepared by Moore Stephens to determine the impairment loss on the intangible assets; and

(ii) after recognising an impairment loss on intangible assets, further assessed the impairment loss on the whole CGU by performing a full valuation of the Automotive Engines Business.

No further impairment loss was recognised on goodwill as the value in use of the Automotive Engines Business is higher than the carrying amount of the CGU after recognising the impairment loss on the intangible assets.

The discounted cash flow method under income approach was adopted by Moore Stephens in the 2018 Annual Valuation. The 2018 Annual Valuation was based on the following key assumptions and input:

(i) the projected cash flow from 31 December 2019 to 31 December 2023 (the "**Forecast Period A**") on management expectation of future business performance and prospects of the CGU;

(ii) the revenue for the Forecast Period A projected by the management based on the purchasing plan of the major customers of the CGU with the downward adjustments made by the management considering the historical difference between the actual purchase from the major customers and the past purchase plans;

(iii) the net profit margin for the Forecast Period A was estimated by the management based on the historical net profit margin with downward adjustments considering higher marketing expenses in the future;

(iv) the post-tax discount rate of 18.38% based on the weighted average cost of capital representing the weighted average return attributable to all of the operating assets of the CGU; the pre-tax discount rate of 21.42% determined by an iterative computation so that the value in use determined using pre-tax cash flows and a pre-tax discount rate equals value in use determined using post-tax cash flows and a post-tax discount rate; and

(v) the growth rate beyond the Forecast Period A was 2.5% which did not exceed the long-term average growth rate of the industry.

The inputs and assumptions used in the 2018 Annual Valuation has the following significant changes from those previously adopted:

(a) the post-tax discount rate adopted increased from 16.96% for the valuation for the year ended 31 December 2017 (the "**2017 Annual Valuation**") to 18.38% for 2018 Annual Valuation to reflect the deterioration in the operation and financial stability of the major clients of the CGU; and

(b) the cash flow forecast for the Forecast Period A was adjusted downward by the management in 2018 Annual Valuation compared with 2017 to reflect the slowdown of the growth in automobile industry in the PRC and the deterioration in operation of the major clients of the CGU due to the financial difficulties encountered by the Automotive Engines Business Customers as well as the risk and time required for them to complete the negotiation of the resumption arrangement with all suppliers along the supply chain to resume normal operation.

The three Automotive Engines Business Customers contributed to the Group an aggregate revenue of approximately HK$1,908 million, HK$1,481.7 million and HK$246.9 million for the years ended 31 December 2016, 2017 and 2018 and an aggregate net profit(loss) before any impairment loss and amortization of intangible assets and goodwill of approximately HK$260.8 million, HK$178.2 million and (HK$136.1 million) for the years ended 31 December 2016, 2017 and 2018. Based on the impairment assessment for the year ended 31 December 2018, the Board estimated that the Automotive Engines Business Customers would generate to the Group an aggregate revenue of approximately HK$502.6 million, HK$651.4 million and HK$846.8 million for the years ended 31 December 2019, 2020 and 2021 and an aggregate net profit before any impairment loss and amortization of intangible assets and goodwill of approximately HK$10.6 million, HK$29.6 million and HK$55.6 million for the years ended 31 December 2019, 2020 and 2021.

As discussed with the Automotive Engines Business Customers and disclosed in the Announcement, since the Automotive Engines Business Customers have shortage in supply due to the suppliers' concern on the payment ability of the Automotive Engines Business Customers, the full resumption of production will be further delayed. The Board therefore expected that the Automotive Engines Business Customers would generate minimal revenue and profit to the Group for the year ended 31 December 2019, and the purchase forecast from the Automotive Engines Business Customers was delayed by one year accordingly. As such, the Board expected that the forecasted revenue and profit from the Automotive Engines Business Customers for the three years ended 31 December 2021 will be delayed by one year when compared to the forecast adopted in the impairment assessment as at 31 December 2018.

In view of the shortage in supply due to the suppliers' concern on the payment ability of the Automotive Engines Business Customers resulting in further delay in the full resumption of production of the Automotive Engines Business Customers, the Board performed a further impairment assessment as at 15 June 2019. Based on the updated valuation performed by Moore Stephens, the Board estimated that there might be a further impairment loss on intangible assets of approximately HK$50.8 million. Moore Stephen's valuation for the impairment assessment as at 15 June 2019 was based on the following key assumptions and input:

(i) the projected cashflow from 31 December 2019 to 31 December 2024 (the "**Forecast Period B**") on the management expectation of future business performance and prospect of the CGU;

(ii) the revenue for the Forecast Period B projected by the management of the Company based on the purchasing plan of the major customers of the CGU with the downward adjustments made by the management considering the historical difference between the actual purchase from the major customers and the past purchase plans;

(iii) the net profit margin for the Forecast Period B projected by the management based on the historical net profit margin with downward adjustments considering higher marketing expenses in the future;

(iv) the post-tax discount rate of 18.72% based on the weighted average cost of capital representing the weighted average return attributable to all of the operating assets of the CGU; and the pre-tax discount rate of 20.99% determined by an iterative computation so that the value in use determined by the pre-tax cash flows and a pre-tax discount rate equals value in use determined by the post-tax cash flows and a post-tax discount rate; and

(v) the growth rate beyond the Forecast Period B was 2.5% which did not exceed the long term average growth rate of the industry.

The then Board considered that the acquisition of the Automotive Engines Business was fair and reasonable and in the interests of the Company and the Shareholders as a whole at the time of acquisition, based on the following assessments and due diligence:

- there was a 50% discount on the tax required for purchase of passenger vehicles under 1,600 cubic centimeters displacement implemented by the PRC government from 1 October 2015 to 31 December 2016, which would encourage the PRC residents to purchase such type of vehicles that would have a positive impact on the Automotive Engines Business;
- the oil price remained low since 2014 and the cost of driving would therefore be substantially reduced. The Board therefore believed that such reduction in the cost of driving would encourage more residents to purchase their own vehicles for daily transportation purpose;
- the target company had signed sales framework agreements with several customers;
- a two-year profit guarantee was provided by the vendor of the transaction;
- the due diligence performed by and the assessment on the profit forecast, customers background, business model, product quality and management in details made by the management and directors of the Company;
- the valuation on the equity value of the Automotive Engines Business and the net fair value of the identifiable tangible and intangible assets and liabilities performed by an independent valuer;
- the accountants report on the financial information of the Automotive Engines Business prepared by the reporting accountants and the review of the unaudited pro-forma financial information of the group post-acquisition by the reporting accountants; and

- the legal due diligence on the Automotive Engines Business conducted by the Company's PRC legal counsel.

Concerning the significant impairment loss recognised almost 3 years after the acquisition, the Board considered the reasons, events and circumstances leading to such impairment, including 1) the downturn of vehicle sales market in PRC in 2018; and 2) the financial difficulties encountered by the Automotive Engines Business Customers due to the reduction of excessive production capacity policy and deleveraging policy in 2018, only appeared recently and could not be reasonably foreseen by the then Board at the time of acquisition.

In light of the above, the Board considers that the Directors in the then Board have fulfilled their fiduciary duties and duties of skill, care and diligence under Listing Rules 3.08 and 3.09 in relation to the acquisition of the Automotive Engines Business.

The above additional information does not affect other information contained in the Annual Report. Save as disclosed in this announcement, the remaining contents of the Annual Report remain unchanged.

By Order of the Board
Bisu Technology Group International Limited
Lam Wah
Executive Director

Hong Kong, 26 July 2019

As at the date of this announcement, the executive Directors are Mr. Xing Bin and Mr. Lam Wah; and the independent non-executive Directors are Mr. Leung Tsz Wing, Mr. Zhang Guozhi and Mr. Ip Mei Shun.