



G.A. Holdings Limited G.A. 控股有限公司

(incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong under the trading name of German Automobiles International Limited)
(Stock Code: 8126)



**INTERIM REPORT
2019**

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of G.A. Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.



INDEPENDENT REVIEW REPORT

To the Board of Directors of G.A. Holdings Limited
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information of G.A. Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 4 to 34, which comprises the condensed consolidated statement of financial position of as at 30 June 2019, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of this interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, accordance with HKAS 34.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

7 August 2019

Lin Ching Yee Daniel

Practising Certificate No.: P02771

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019

| | Notes | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|--|-------|--|------------------|--|------------------|
| | | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Revenue | 3 | 532,615 | 500,490 | 1,053,906 | 1,002,769 |
| Other income | 3 | 11,881 | 8,349 | 23,859 | 17,448 |
| | | 544,496 | 508,839 | 1,077,765 | 1,020,217 |
| Changes in inventories | | 20,360 | 1,348 | 22,292 | (37,096) |
| Auto parts and accessories, and motor vehicles purchased | | (474,418) | (415,333) | (920,155) | (800,596) |
| Employee benefit expenses | | (33,559) | (31,518) | (69,193) | (70,285) |
| Depreciation and amortisation | | (15,083) | (12,657) | (30,611) | (25,708) |
| Operating lease charges | | (1,320) | (4,573) | (3,182) | (8,882) |
| Exchange differences, net | | (581) | (3,959) | (483) | (1,207) |
| Other expenses | | (17,164) | (20,353) | (30,860) | (31,959) |
| Profit from operations | | 22,731 | 21,794 | 45,573 | 44,484 |
| Finance costs | 4 | (9,368) | (9,578) | (18,755) | (18,432) |
| Profit before income tax | 4 | 13,363 | 12,216 | 26,818 | 26,052 |
| Income tax expense | 5 | (5,359) | (6,283) | (12,726) | (11,413) |
| Profit for the period | | 8,004 | 5,933 | 14,092 | 14,639 |
| Other comprehensive expense | | | | | |
| Item that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange loss on translation of financial statements of foreign operations | | (15,730) | (29,703) | (2,232) | (5,804) |
| Total comprehensive (expense)/ income for the period | | (7,726) | (23,770) | 11,860 | 8,835 |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

for the six months ended 30 June 2019

| | Notes | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|--------------------|-------|--|------------------|--|------------------|
| | | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| | | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share | | | | | |
| Basic and diluted | 7 | 1.68 | 1.25 | 2.96 | 3.07 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

| | Notes | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|---|-------|---|---|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 220,849 | 263,886 |
| Leasehold land | | – | 82,493 |
| Intangible asset | | 17,055 | 18,256 |
| Prepaid expenses | | 12,858 | 14,381 |
| Right-of-use assets | | 221,797 | – |
| Goodwill | | 6,417 | 6,440 |
| Deferred tax assets | | 1,806 | 1,812 |
| Financial asset at fair value through other comprehensive income | 17 | 8,186 | 8,215 |
| | | 488,968 | 395,483 |
| Current assets | | | |
| Inventories | | 173,596 | 195,888 |
| Trade receivables | 9 | 108,121 | 128,457 |
| Prepayments, deposits and other receivables | 10 | 549,131 | 621,626 |
| Tax recoverable | | 2,926 | 4,095 |
| Pledged deposits | | 90,225 | 135,213 |
| Cash and bank balances | | 100,899 | 77,555 |
| | | 1,024,898 | 1,162,834 |
| Current liabilities | | | |
| Trade payables | 11 | 37,364 | 54,295 |
| Lease liabilities | | 35,652 | – |
| Contract liabilities | | 59,202 | 67,971 |
| Accruals and other payables | | 38,782 | 38,079 |
| Bills payable | 11 | 128,361 | 222,415 |
| Borrowings | | 451,668 | 516,689 |
| Amounts due to related companies | | – | 280 |
| Advance from a director | | 1,260 | 1,007 |
| Tax payable | | 29,332 | 32,653 |
| | | 781,621 | 933,389 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

as at 30 June 2019

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|--|---|---|
| Net current assets | 243,277 | 229,445 |
| Total assets less current liabilities | 732,245 | 624,928 |
| Non-current liabilities | | |
| Borrowings | – | 6,129 |
| Lease liabilities | 101,972 | – |
| Deferred tax liabilities | 16,201 | 16,587 |
| | 118,173 | 22,716 |
| Net assets | 614,072 | 602,212 |
| EQUITY | | |
| Share capital | 47,630 | 47,630 |
| Reserves | 566,442 | 554,582 |
| Total equity | 614,072 | 602,212 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | | |
|--|---------------------------------------|----------------|------------------|--------------------|----------------|----------------------|-------------------|--------------|
| | Share capital | Share premium* | Capital reserve* | Statutory reserve* | Other reserve* | Translation reserve* | Retained profits* | Total equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| For the six months ended 30 June 2019 (unaudited) | | | | | | | | |
| At 1 January 2019 (audited) | 47,630 | 29,522 | 8,623 | 39,499 | (10,735) | (26,527) | 514,200 | 602,212 |
| Profit for the period | - | - | - | - | - | - | 14,092 | 14,092 |
| Other comprehensive expense: | | | | | | | | |
| Exchange loss on translation of financial statements of foreign operations | - | - | - | - | - | (2,232) | - | (2,232) |
| Total comprehensive income for the period | - | - | - | - | - | (2,232) | 14,092 | 11,860 |
| Transactions with owners: | | | | | | | | |
| Appropriation to statutory reserve | - | - | - | 3,654 | - | - | (3,654) | - |
| Total transactions with owners | - | - | - | 3,654 | - | - | (3,654) | - |
| At 30 June 2019 | 47,630 | 29,522 | 8,623 | 43,153 | (10,735) | (28,759) | 524,638 | 614,072 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

for the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | | Total equity HK\$'000 |
|---|---------------------------------------|----------------------------|------------------------------|--------------------------------|----------------------------|----------------------------------|-------------------------------|--------------------------|
| | Share capital HK\$'000 | Share premium* HK\$'000 | Capital reserve* HK\$'000 | Statutory reserve* HK\$'000 | Other reserve* HK\$'000 | Translation reserve* HK\$'000 | Retained profits* HK\$'000 | |
| For the six months ended 30 June 2018 (unaudited) | | | | | | | | |
| At 1 January 2018 (audited) | 47,630 | 29,522 | 8,623 | 33,102 | (10,735) | 3,797 | 498,080 | 611,019 |
| Adjustment from adoption of HKFRS 9 | - | - | - | - | - | - | (470) | (470) |
| Adjusted balance at 1 January 2018 | 47,630 | 29,522 | 8,623 | 33,102 | (10,735) | 3,797 | 498,610 | 610,549 |
| Profit for the period | - | - | - | - | - | - | 14,639 | 14,639 |
| Other comprehensive expense: Exchange loss on translation of financial statements of foreign operations | - | - | - | - | - | (5,804) | - | (5,804) |
| Total comprehensive income for the period | - | - | - | - | - | (5,804) | 14,639 | 8,835 |
| Transactions with owners: Appropriation to statutory reserve | - | - | - | 2,994 | - | - | (2,994) | - |
| Total transactions with owners | - | - | - | 2,994 | - | - | (2,994) | - |
| At 30 June 2018 | 47,630 | 29,522 | 8,623 | 36,096 | (10,735) | (2,007) | 510,255 | 619,384 |

* These equity accounts comprise the reserves of HK\$566,442,000 (31 December 2018: HK\$554,582,000) in the condensed consolidated statement of financial position as at 30 June 2019.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2019

| | (Unaudited) | |
|---|--------------------------|------------------|
| | Six months ended 30 June | |
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Net cash from/(used in) operating activities | 35,694 | (9,044) |
| Cash flows from investing activities | | |
| Acquisition of financial asset at fair value through other comprehensive income | – | (8,912) |
| Purchase of property, plant and equipment | (13,776) | (12,134) |
| Proceeds from disposal of property, plant and equipment | 9,310 | 10,346 |
| Decrease in pledged deposits | 45,348 | 6,554 |
| Net cash from/(used in) investing activities | 40,882 | (4,146) |
| Cash flows from financing activities | | |
| New borrowings raised | 565,434 | 599,365 |
| Repayment of borrowings | (611,575) | (652,218) |
| Payment of lease liabilities | (6,663) | – |
| Other financing activities | 261 | 268 |
| Net cash used in financing activities | (52,543) | (52,585) |
| Net increase/(decrease) in cash and cash equivalents | 24,033 | (65,775) |
| Translation adjustments | (689) | 4,057 |
| Cash and cash equivalents at the beginning of the period | 77,555 | 136,024 |
| Cash and cash equivalents at the end of the period, represented by cash and bank balances | 100,899 | 74,306 |



NOTES TO THE INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2019

1. GENERAL INFORMATION, BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

G.A. Holdings Limited (the “Company”) was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 5 July 2001. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 1203, 12th Floor, Eton Tower, 8 Hysan Avenue, Causeway Bay, Hong Kong. The Company’s shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the sales of motor vehicles and provision of car-related technical services, servicing of motor vehicles, sales of auto parts and provision of car rental services.

The unaudited condensed consolidated interim financial statements (the “Interim Financial Information”) are for the six months ended 30 June 2019 and are presented in Hong Kong dollars (“HK\$”), unless otherwise stated.

The Interim Financial Information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The Interim Financial Information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”). Except as described in note 2, the basis of preparation and accounting policies adopted in preparing the Interim Financial Information are consistent with those adopted in the preparation of the Group’s audited annual financial statements for the year ended 31 December 2018.



2. ADOPTION OF NEW AND AMENDED HKFRS AND CHANGES IN ACCOUNTING POLICIES

(a) New and amended HKFRSs adopted as at 1 January 2019

In the current period, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's Interim Financial Information for the annual period beginning on 1 January 2019.

Other than the impact of the adoption of HKFRS 16 as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 16 "Lease"

HKFRS 16 "Leases" replaces HKAS 17 "Leases" along with three Interpretations HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease", HK(SIC) Int-15 "Operating Leases-Incentives" and HK(SIC) Int-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). HKFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4. The Group has already recognised the prepaid lease payments for leasehold land with land use right in the People's Republic of China (the "PRC") and prepaid expenses using certain motor vehicle showroom, service centres and related facilities located at Beijing for a period of 10 years where the Group is a lessee. The application of HKFRS 16 does not have impact on these assets except for presenting them as "right-of-use assets" under non-current assets.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial applications of HKFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under HKAS 17 immediately before the date of initial application.

On transition to HKFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was approximately 5%.

2. ADOPTION OF NEW AND AMENDED HKFRSS AND CHANGES IN ACCOUNTING POLICIES (Continued)

(a) New and amended HKFRSSs adopted as at 1 January 2019 (Continued)

HKFRS 16 "Lease" (Continued)

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

| | <i>HK\$'000</i> |
|---|-----------------|
| Total operating lease commitments disclosed at 31 December 2018 | 159,087 |
| Recognition exemptions: | |
| Lease of low value assets | (18) |
| Leases with remaining lease term of less than 12 months | (6,778) |
| Operating leases liabilities before discounting | 152,291 |
| Discounting using incremental borrowing rate as at 1 January 2019 | (45,462) |
| Operating leases liabilities as at 1 January 2019 | 106,829 |
| Finance leases obligation | 24,276 |
| Total lease liabilities recognised under HKFRS 16 at 1 January 2019 | 131,105 |
| | <i>HK\$'000</i> |
| Classified as: | |
| Current lease liabilities | 25,644 |
| Non-current lease liabilities | 105,461 |
| | 131,105 |

The following table summarises the impact of transition to HKFRS 16 on the Group's condensed consolidated statement of financial position at 1 January 2019:

| | <i>HK\$'000</i> |
|---|-----------------|
| Decrease in property, plant and equipment | (29,373) |
| Decrease in leasehold lands | (82,493) |
| Decrease in prepaid expenses | (1,523) |
| Increase in right-of-use assets | 220,688 |
| Decrease in prepayments, deposits and other receivables | (470) |
| Increase in lease liabilities | (131,105) |
| Decrease in borrowings | 24,276 |



2. ADOPTION OF NEW AND AMENDED HKFRSS AND CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Issued but not yet effective HKFRSSs

The Group has not applied any new and amended HKFRSSs that have been published by the HKICPA but are not yet effective for the current accounting period. The Group has commenced an assessment of the impact of these new standards and amendments, but is not yet in a position to state whether they would have a significant impact on its results and financial position.

Information on new and amended HKFRSSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSSs are not expected to have a material impact on the Group's Interim Financial Information.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

The amendments also:

- introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;
- clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold "could influence" with "could reasonably be expected to influence" in the definition of material; and
- clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements they need).

Amendments to HKAS 1 and HKAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The directors expect that the amendments have no material impact on the Group's Interim Financial Information.

2. ADOPTION OF NEW AND AMENDED HKFRSS AND CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Significant accounting policies

The Interim Financial Information has been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 December 2018, except for the effects of applying HKFRS 16.

HKFRS 16 "Lease"

As described in note 2(a), the Group has applied HKFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under HKAS 17 and HK(IFRIC)-Int 4.

Accounting policy applicable from 1 January 2019

The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.



2. ADOPTION OF NEW AND AMENDED HKFRSS AND CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Significant accounting policies (Continued)

HKFRS 16 “Lease” (Continued)

Accounting policy applicable from 1 January 2019 (Continued)

The Group as a lessee (Continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

2. ADOPTION OF NEW AND AMENDED HKFRSS AND CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Significant accounting policies (Continued)

HKFRS 16 “Lease” (Continued)

Accounting policy applicable from 1 January 2019 (Continued)

The Group as a lessee (Continued)

Measurement and recognition of leases as a lessee (Continued)

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less. Low-value assets comprise small items of office equipment.

On the condensed consolidated statement of financial position except for leasehold land and finance lease assets, right-of-use assets are presented separate from other assets.

The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its motor vehicles. Rental income is recognised on a straight-line basis over the term of lease.

3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

The Group recognised revenue and other income by category as follows:

| | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|--|--|------------------|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Revenue | | | | |
| Sales of motor vehicles | 345,127 | 314,717 | 697,457 | 677,258 |
| Servicing of motor vehicles and sales of auto parts | 177,638 | 177,060 | 337,122 | 307,397 |
| Technical fee income | 2,333 | 1,637 | 4,798 | 3,536 |
| Car rental income | 7,517 | 7,076 | 14,529 | 14,578 |
| | 532,615 | 500,490 | 1,053,906 | 1,002,769 |
| Other income | | | | |
| Bank interest income | 290 | 143 | 840 | 525 |
| Commission income | 6,101 | 2,221 | 10,603 | 4,864 |
| Consultant service income | 3,435 | 3,061 | 7,970 | 6,553 |
| Financial guarantee income | 109 | 116 | 221 | 234 |
| Gain on disposal of property, plant and equipment | 729 | 1,247 | 2,207 | 2,241 |
| Sundry income | 1,217 | 1,561 | 2,018 | 3,031 |
| | 11,881 | 8,349 | 23,859 | 17,448 |

Segment information

The Group has identified the following reportable segments for the period:

- Motor vehicles sales and services business – primarily consists of the operations of (i) motor vehicle distribution and dealership business, which includes sales of motor vehicles and provision of after-sales services; and (ii) other motor vehicles related business, which includes operations of motor vehicles service shops, sales of auto parts, provision of car-related technical services and other value-added motor vehicle services; and

3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

- Car rental business

Each of these reportable operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

(a) Segment revenue, segment results and other segment information

| | (Unaudited) | | |
|---|---|------------------------------------|-------------------|
| | Six months ended 30 June 2019 | | |
| | Motor vehicles sales and services business HK\$'000 | Car rental business HK\$'000 | Total HK\$'000 |
| Reportable segment revenue | 1,039,377 | 14,529 | 1,053,906 |
| Reportable segment profit | 32,185 | 3,177 | 35,362 |
| Other Information | | | |
| Depreciation and amortisation of non-current assets | (22,324) | (8,287) | (30,611) |
| Net gain on disposal of property, plant and equipment | - | 2,207 | 2,207 |
| ECL allowance on trade receivables | (200) | - | (200) |
| Addition to non-current assets (other than deferred tax assets and financial instruments) during the period | 10,918 | 13,699 | 24,617 |



3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(a) Segment revenue, segment results and other segment information (Continued)

| | (Unaudited) | | |
|---|---|------------------------------------|-------------------|
| | Six months ended 30 June 2018 | | |
| | Motor vehicles sales and services business HK\$'000 | Car rental business HK\$'000 | Total HK\$'000 |
| Reportable segment revenue | 988,191 | 14,578 | 1,002,769 |
| Reportable segment profit | 30,117 | 2,113 | 32,230 |
| Other Information | | | |
| Depreciation and amortisation of non-current assets | (18,544) | (7,164) | (25,708) |
| Net gain on disposal of property, plant and equipment | 710 | 1,531 | 2,241 |
| Impairment loss on trade receivables | (245) | (2) | (247) |
| Addition to non-current assets (other than deferred tax assets and financial instruments) during the period | 11,553 | 16,779 | 28,332 |

(b) Segment assets and liabilities

| | (Unaudited) | | |
|--------------------------------|---|------------------------------------|-------------------|
| | As at 30 June 2019 | | |
| | Motor vehicles sales and services business HK\$'000 | Car rental business HK\$'000 | Total HK\$'000 |
| Reportable segment assets | 1,210,389 | 53,641 | 1,264,030 |
| Reportable segment liabilities | 755,895 | 20,816 | 776,711 |

3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(b) Segment assets and liabilities (Continued)

| | (Audited) | | |
|--------------------------------|---|------------------------------------|-------------------|
| | As at 31 December 2018 | | |
| | Motor vehicles sales and services business HK\$'000 | Car rental business HK\$'000 | Total HK\$'000 |
| Reportable segment assets | 1,278,619 | 48,582 | 1,327,201 |
| Reportable segment liabilities | 818,140 | 24,952 | 843,092 |

(c) Reconciliation of segment information to the Group's key financial figures as presented in the Interim Financial Information

| | (Unaudited) | |
|--------------------------------|--------------------------|------------------|
| | Six months ended 30 June | |
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Reportable segment revenue | 1,053,906 | 1,002,769 |
| Reportable segment profit | 35,362 | 32,230 |
| Unallocated corporate income | 2,851 | 2,791 |
| Unallocated corporate expenses | | |
| Employee benefit expenses | (1,361) | (673) |
| Others | (8,233) | (6,918) |
| Unallocated finance costs | (1,801) | (1,378) |
| Profit before income tax | 26,818 | 26,052 |



3. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

(c) *Reconciliation of segment information to the Group's key financial figures as presented in the Interim Financial Information (Continued)*

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|---|---|---|
| Reportable segment assets | 1,264,030 | 1,327,201 |
| Non-current corporate assets <i>(note (i))</i> | 10,279 | 10,521 |
| Current corporate assets <i>(note (ii))</i> | 239,557 | 220,595 |
| Consolidated total assets | 1,513,866 | 1,558,317 |
| Reportable segment liabilities | 776,711 | 843,092 |
| Non-current corporate liabilities <i>(note (iii))</i> | 17,185 | 17,701 |
| Current corporate liabilities <i>(note (iv))</i> | 105,898 | 95,312 |
| Consolidated total liabilities | 899,794 | 956,105 |

Notes:

- (i) Non-current corporate assets mainly include certain property, plant and equipment, deferred tax assets and financial asset at fair value through other comprehensive income that are not directly attributable to the business activities of the operating segments.
- (ii) Current corporate assets mainly include certain prepayments, deposits and other receivables, tax recoverable, cash and bank balances and pledged deposits that are not directly attributable to the business activities of the operating segments or that are managed on group basis.
- (iii) Non-current corporate liabilities include deferred tax liabilities, certain finance lease liabilities (included in borrowings) and certain lease liabilities and certain lease liabilities that are not directly attributable to the business activities of the operating segments.
- (iv) Current corporate liabilities include certain accruals and other payables, certain borrowings, amount due to related companies, advance from a director and tax payable that are not directly attributable to the business activities of the operating segments or that are managed on group basis.



4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived after charging/(crediting):

| | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|---|--|------------------|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Finance costs | | | | |
| Interest charges on bank and other borrowings | 7,653 | 9,351 | 15,461 | 18,007 |
| Finance charges on lease liabilities (2018: Interest element of finance lease payments) | 1,715 | 227 | 3,294 | 425 |
| | 9,368 | 9,578 | 18,755 | 18,432 |



4. PROFIT BEFORE INCOME TAX (Continued)

| | (Unaudited) | | (Unaudited) | |
|--|-------------------------------|------------------|-----------------------------|------------------|
| | Three months ended 30 June | | Six months ended 30 June | |
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Other items | | | | |
| Operating lease charges (note): | | | | |
| – Short term leases and leases with lease term shorter than 12 months as at initial application of HKFRS 16 | 1,318 | – | 3,178 | – |
| – Leases of low value items | 2 | – | 4 | – |
| Depreciation of property, plant and equipment | 6,353 | 11,225 | 17,365 | 22,785 |
| Depreciation of right-of-use assets | 8,156 | – | 12,087 | – |
| Net gain on disposal of property, plant and equipment | (729) | (1,247) | (2,207) | (2,241) |
| Amortisation of intangible asset | 574 | 608 | 1,159 | 1,228 |
| Amortisation of prepaid expenses | – | 119 | – | 242 |
| Amortisation of leasehold land | – | 705 | – | 1,453 |
| ECL allowance on trade receivables | 200 | 247 | 200 | 247 |

Note: The Company has initially applied HKFRS 16 at 1 January 2019. Under the transitions method chosen, comparative information is not restated.

5. INCOME TAX EXPENSE

| | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|---------------------------------|--|------------------|--|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Current – Overseas | | | | |
| – Charge for the period | 5,760 | 6,707 | 13,127 | 11,837 |
| Current tax – total | 5,760 | 6,707 | 13,127 | 11,837 |
| Deferred tax | (401) | (424) | (401) | (424) |
| Total Income tax expense | 5,359 | 6,283 | 12,726 | 11,413 |

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 rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. Hong Kong profits tax has not been provided for the six months ended 30 June 2019 and 2018 as the Group has no assessable profits for the period.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rate of tax prevailing in the countries in which the Group operates.

The income tax provision in respect of operations in the PRC is calculated at the applicable rates on the estimated assessable profits for the period based on the unification of the income tax rates for domestic-invested and foreign invested enterprises at 25% (2018: 25%).

Income tax in respect of operations in Singapore has not been provided for the six months ended 30 June 2019 and 2018 as the Company’s Singapore subsidiary has no assessable profits for the periods.



6. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2019 is based on the unaudited profit attributable to the owners of the Company for the three months ended 30 June 2019 of approximately HK\$8,004,000 (three months ended 30 June 2018: HK\$5,933,000) and on the weighted average number of 476,300,000 (three months ended 30 June 2018: 476,300,000) ordinary shares in issue during the three months ended 30 June 2019.

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the unaudited profit attributable to the owners of the Company for the six months ended 30 June 2019 of approximately HK\$14,092,000 (six months ended 30 June 2018: HK\$14,639,000) and on the weighted average number of 476,300,000 (six months ended 30 June 2018: 476,300,000) ordinary shares in issue during the six months ended 30 June 2019.

Diluted earnings per share for the three months and the six months ended 30 June 2019 and 2018 are the same as the basic earnings per share as there was no dilutive potential ordinary share in issue during the respective periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with total cost of approximately HK\$13,776,000 (six months ended 30 June 2018: HK\$28,332,000) and disposed of certain items of property, plant and equipment with total carrying amount of approximately HK\$7,103,000 (six months ended 30 June 2018: HK\$8,105,000).



9. TRADE RECEIVABLES

The Group requires individual customer to pay cash for any service rendered and goods sold while it generally allows a credit period from 3 to 9 months to its major customers with long business relationship. At the end of the reporting period, the aging analysis of trade receivables, based on invoice date, is as follows:

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|---------------------|---|---|
| 0 – 90 days | 79,858 | 82,192 |
| 91 – 180 days | 10,938 | 33,926 |
| 181 – 365 days | 13,462 | 9,339 |
| Over 1 year | 4,572 | 3,509 |
| | 108,830 | 128,966 |
| Less: ECL allowance | (709) | (509) |
| | 108,121 | 128,457 |

The movement in the ECL allowance of trade receivables is as follows:

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|--|---|---|
| Balance/Adjusted balance at the beginning of the period/year | 509 | 470 |
| ECL allowance recognised during the period/year | 200 | 39 |
| Balance at the end of the period/year | 709 | 509 |



10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|--|---|---|
| Advances to the Zhong Bao Group (<i>note</i>) | 452,136 | 500,492 |
| Current portion of prepaid expenses | – | 470 |
| Rebate receivables | 40,311 | 66,608 |
| Other receivables, prepayments and deposits paid | 56,684 | 54,056 |
| | 549,131 | 621,626 |

No ECL allowance has been provided for deposit and other receivables during the period (2018: nil).

Note:

The Group has maintained long term business relationship with Xiamen Zhong Bao Automobiles Co., Limited (“Xiamen Zhong Bao”) and its related companies (collectively, “Zhong Bao Group”).

Pursuant to technical and management service agreements entered into between the Group and Zhong Bao Group, the Group would provide technical expertise, management service and financial assistance to Zhong Bao Group including making advances for the operations of the distribution of locally manufactured BMW motor vehicles in the PRC by Zhong Bao Group. The technical fee charged by the Group is based on agreed terms with reference to the monthly actual sales quantity of specified car models of Zhong Bao Group.

Other than the above, the Group sells motor vehicles, auto parts and provides motor vehicles services to the customers of Zhong Bao Group. Total receivables arising from the above transactions including advances made to Zhong Bao Group and trade receivables from Zhong Bao Group outstanding as at 30 June 2019 amounted to HK\$504,864,000 (31 December 2018: HK\$560,157,000), which after netting off the trade and other payables balances due by the Group to Zhong Bao Group. The amount is interest-free and repayable on demand.

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

On 19 March 2019, the Group entered into an agreement with Xiamen Zhong Bao, pursuant to which Xiamen Zhong Bao agreed to pledge their motor vehicles inventories to the Group until full settlement of all the outstanding amount due by Zhong Bao Group, which provide safeguard for the balances due by Zhong Bao Group. The collateral remains effective as long as there are outstanding balances due by Zhong Bao Group.

In view of the satisfactory settlement record in the past and the collateral in place as mentioned above, the directors are of the opinion that the credit risk of advances and the trade receivables due from Zhong Bao Group are low and thus ECL allowance is considered immaterial.

11. TRADE AND BILLS PAYABLES

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|---------------|---|---|
| Trade payable | 37,364 | 54,295 |
| Bills payable | 128,361 | 222,415 |
| | 165,725 | 276,710 |

The credit period of the Group is usually 3 to 6 months. At the end of the reporting period, the aging analysis of trade and bills payables, based on invoice date, is as follows:

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|----------------|---|---|
| 0 – 30 days | 68,281 | 35,859 |
| 31 – 180 days | 94,018 | 215,100 |
| 181 – 365 days | 1,433 | 24,075 |
| 1 – 2 years | 1,424 | 619 |
| Over 2 years | 569 | 1,057 |
| | 165,725 | 276,710 |



12. LEASE COMMITMENTS

As lessor

The Group leases its motor vehicles under operating leases arrangements. The terms of the leases are mutually agreed between the Group and the respective tenants.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|--------------------------------------|--|--|
| Within one year | 20,343 | 17,339 |
| After one year but within five years | 16,538 | 20,333 |
| | 36,881 | 37,672 |

As lessee

At the end of the reporting period, the lease commitments for short-term leases and leases of low-value assets (year ended 31 December 2018: total future minimum lease payments payable by the Group under non-cancellable operating leases) are as follows:

| | (Unaudited) As at 30 June 2019 HK\$'000 | (Audited) As at 31 December 2018 HK\$'000 |
|--------------------------------------|--|--|
| Within one year | 5,551 | 19,760 |
| After one year but within five years | – | 44,606 |
| After five years | – | 94,721 |
| | 5,551 | 159,087 |

As at 30 June 2019, the Group leases a number of properties, items of office equipment, car parking space and motor vehicles with a lease period less than 12 months, which qualified to be accounted for under short-term leases exemption under HKFRS 16.

As at 31 December 2018, the Group leases certain of its office premises, car parks, furniture and equipment and motor vehicles under operating leases. The leases run for an initial period of 1 to 15 years. None of the leases include contingent rentals.



13. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had given guarantees as follows:

| | (Unaudited) As at 30 June 2019 <i>HK\$'000</i> | (Audited) As at 31 December 2018 <i>HK\$'000</i> |
|--|--|--|
| Guarantees for banking facilities provided to Zhong Bao Group | 158,043 | 158,599 |

14. TRANSACTIONS WITH ZHONG BAO GROUP

Save for those disclosed as set out in notes 10 and 13, the Group had generated income from sales of motor vehicles and auto parts and car servicing of HK\$51,656,000 (six months ended 30 June 2018: HK\$61,089,000) and earned technical fee income of HK\$4,798,000 (six months ended 30 June 2018: HK\$3,536,000) from Zhong Bao Group during the six months ended 30 June 2019.

The Group purchased motor vehicles and auto parts and car servicing of HK\$21,431,000 (six months ended 30 June 2018: HK\$34,346,000) from Zhong Bao Group and was charged rental of HK\$2,191,000 (six months ended 30 June 2018: HK\$3,123,000) by Zhong Bao Group during the six months ended 30 June 2019.



15. RELATED PARTY TRANSACTIONS

In addition to the information disclosed elsewhere in the Interim Financial Information, during the period, the Group had the following transactions with related parties:

15.1 Key management personnel remuneration

Key management of the Group are members of the board of directors and senior management. Included in employee benefit expenses are key management personnel remuneration which includes the following expenses:

| | (Unaudited) | |
|---------------------------------------|--------------------------|-------------------------|
| | Six months ended 30 June | |
| | 2019 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> |
| Key management personnel compensation | | |
| Short term employee benefits | 5,458 | 4,974 |
| Post-employment benefits | 46 | 43 |
| | 5,504 | 5,017 |

15.2 As at 30 June 2019, certain borrowings of approximately HK\$262,773,000 (31 December 2018: HK\$350,496,000) were guaranteed by Loh Nee Peng, a substantial shareholder of the company.

16. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2019, the Group entered into lease arrangements in respect of the acquisition of right-of-use assets with a total capital value at the inception of the leases of HK\$10,841,000.

During the six months ended 30 June 2018, the Group entered into lease arrangements in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK\$16,198,000.

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The directors consider that the carrying amount of each class of the financial assets and financial liabilities approximate to their fair values.

Financial assets and liabilities measured at fair value in the condensed consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

| | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| As at 30 June 2019 (Unaudited) | | | | |
| Assets | | | | |
| Financial asset at fair value through other comprehensive income | – | – | 8,186 | 8,186 |
| As at 31 December 2018 (Audited) | | | | |
| Assets | | | | |
| Financial asset at fair value through other comprehensive income | – | – | 8,215 | 8,215 |

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for Group's unlisted equity investment.



17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Details of the particulars of the financial asset at fair value through other comprehensive income are as follows:

| Name of financial asset | Place of establishment and operation | Particulars of registered capital | Percentage of equity interest directly held by the Group | Principal activities |
|---|--------------------------------------|-----------------------------------|--|---|
| 廈門歐利行汽車銷售服務有限公司 (Xiamen Euro Automobiles Sales and Service Co., Ltd.)* | PRC | RMB80,000,000 | 9% | Sales of high-end motor vehicles and provision of repair and maintenance services of high-end automobiles |

The fair value of financial asset at fair value through other comprehensive income is determined using adjusted net asset method.

Fair value measurement using significant unobservable inputs (Level 3)

The reconciliation of the carrying amount of the Group's financial instrument classified within Level 3 of the fair value hierarchy is as follows:

| | Unlisted equity security (Level 3) HK\$'000 |
|------------------------------------|--|
| At 31 December 2018 (audited) | 8,215 |
| Translation adjustment | (29) |
| At 30 June 2019 (unaudited) | 8,186 |

Valuation processes

In determining fair value, specific valuation techniques are used with reference to inputs such as leasehold land's market value and expected cash inflows from receivables and other specific inputs relevant to the particular financial asset included in the unlisted equity investment. The main input used by the Group in measuring the fair value of the unlisted equity security is derived and evaluated as follows:

– Market value of leasehold land:

The market value of leasehold land was determined by the directors of the Company using the direct comparison approach with reference to comparable sales transactions as available in the relevant market. The current use of the leasehold land equates to the highest and best use. The directors of the Company consider that the carrying amount of the unlisted equity investment of the Group is not materially different from their fair values of adjusted net assets as at 30 June 2019.

There have been no transfers into or out of Level 3 during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the six months ended 30 June 2019, our group continues to provide excellent customer-oriented services and improved customer experience at our automobile dealer shops. Revenue has grown by 5.1% to HK\$1,053,906,000 compared with HK\$1,002,769,000 in the corresponding period in 2018. Nevertheless, the competition in the premium and ultra-luxury automobile market has been tremendous, and the profit for the six months ended 30 June 2019 was HK\$14,092,000, representing a decrease of 3.7% compared to HK\$14,639,000 in corresponding period in 2018. This was mainly resulted from (i) decrease in gross operating margin due to keen completion in the premium and ultra-luxury automobile market, net off with (ii) decrease in other operating expenses.

FINANCIAL REVIEW

Revenue

The unaudited consolidated revenue for the six months ended 30 June 2019 increased by 5.1%, from HK\$1,002,769,000 in the corresponding period in 2018 to HK\$1,053,906,000 in the current period. The increase was attributable to the increase in sales of motor vehicles, servicing of motor vehicles and sales of auto parts.

1. Sales of motor vehicles

For the six months ended 30 June 2019, the sales amount of motor vehicles increased by 3.0% to HK\$697,457,000 from HK\$677,258,000 in the corresponding period in 2018. The increase was mainly attributable to new car models launched to the market during the six months ended 30 June 2019.

2. Servicing of motor vehicles and sales of auto parts

Revenue generated from servicing of motor vehicles and sales of auto parts increased by 9.7% to HK\$337,122,000 compared to the corresponding period in 2018, the increase was driven by (i) increase in number of servicing of motor vehicles orders in the Fuzhou area; (ii) increase in sale of car accessories; and (iii) startup of a new branch of our repair workshop in Xiamen.



3. Technical fee income

The Group received technical fee income from Xiamen Zhong Bao Automobiles Co., Ltd.* (“Xiamen Zhong Bao”) for providing management consulting and technical assistance in relation to the PRC locally assembled BMW motor vehicles sold by Xiamen Zhong Bao.

Technical fee income for the six ended 30 June 2019 was HK\$4,798,000, increased by 35.7% as compared to the corresponding period in 2018 as car manufactures continue to localize their production in the PRC and more PRC locally assembled BMW motor vehicles were sold by Xiamen Zhong Bao in 2019.

4. Car rental business

The income from car rental business in Hong Kong for the six months ended 30 June 2019 was HK\$14,529,000, representing a slightly decrease of 0.3% compared to the corresponding period in 2018.

Gross Operating Profit and Gross Operating Margin

Gross operating profit is calculated based on our revenue for the period minus changes in inventories and auto parts and accessories, and motor vehicles purchased during the period. Gross operating margin is calculated based on the gross operating profit for the period divided by revenue for the period multiplied by 100%.

The gross operating profit for the six months ended 30 June 2019 decreased by 5.5% to HK\$156,043,000, as compared to HK\$165,077,000 in the corresponding period in 2018.

The gross operating margin for the six months ended 30 June 2019 was 14.8%, as compared to 16.5% for the six months 30 June 2018. The decrease in gross operating margin was mainly due to keen competition in the premium and ultra-luxury automobile market and also the falling prices in an ultra-luxury automobile brand.

Other Income

Other income increased from HK\$17,448,000 in the corresponding period in 2018 to HK\$23,859,000 in the current period mainly due to the increase in consultant service income and commission income during the period.

Employee Benefit Expenses

The Group recorded employee benefit expenses of HK\$69,193,000 for the six months ended 30 June 2019, representing a 1.6% decrease as compared to HK\$70,285,000 in the corresponding period in 2018. Their was mainly due to decrease in staff bonus for the six months ended 30 June 2019 compared with corresponding period in 2018.

Depreciation and amortisation

Depreciation and amortisation expenses increased from HK\$25,708,000 for the six months ended 30 June 2018 to HK\$30,611,000 for the six months ended 30 June 2019. This was mainly due to the adoption of new HKFRS 16 during the period in 2019 as described in note 2(a) to the unaudited condensed consolidated financial statements. By adopting the new HKFRS 16, the rental expenses previously recognised under “operating lease charges” are now recognised as right-of-use assets and amortised over their lease-terms under the category of “depreciation and amortisation”.

Operating Lease Charges

Operating lease charged decreased from HK\$8,882,000 for the six months ended 30 June 2018 to HK\$3,182,000 for the six months ended 30 June 2019. The decrease was mainly due to the adoption of new HKFRS 16 during the period in 2019. By adopting the new HKFRS 16, the rental expenses previously recognised under “operating lease charges” are now recognised as right-of-use assets and amortise over their lease-terms under the category of “depreciation and amortisation”.

Foreign Exchange Exposure

During the six months ended 30 June 2019, the exchange loss was HK\$483,000 compared to HK\$1,207,000 in the corresponding period in 2018. This is mainly resulted from the translation of receivables or payables denominated in foreign currencies other than the functional currencies of the group companies.



Other Expenses

For the six months ended 30 June 2019, other expenses were HK\$30,860,000, representing a decrease of 3.4% compared to HK\$31,959,000 in the corresponding period in 2018.

Finance Costs

Finance costs increased slightly from HK\$18,432,000 for the six months ended 30 June 2018 to HK\$18,755,000 for the current period in 2019.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the six months ended 30 June 2019 was HK\$14,092,000 while HK\$14,639,000 was recorded in the corresponding period in 2018. The decrease was mainly due to (i) decrease on gross operating margin due to keen competition in the premium and ultra-luxury automobile market, net off with (ii) decrease in other operating expenses.

Financial Resources and Liquidity

As at 30 June 2019, shareholders' fund of the Group amounted to HK\$614,072,000 (31 December 2018: HK\$602,212,000); current assets amounted to HK\$1,024,898,000 (31 December 2018: HK\$1,162,834,000) of which, HK\$191,124,000 (31 December 2018: HK\$212,768,000) was cash and bank deposits. Current liabilities, amounted to HK\$781,621,000 (31 December 2018: HK\$933,389,000), were mainly trade payables, contract liabilities, lease liabilities, borrowings, bills payable, accruals and other payables and tax payable. The Group had non-current liabilities amounted to HK\$118,173,000 (31 December 2018: HK\$22,716,000) which were mainly lease liabilities. The net asset value per share as at 30 June 2019 was HK\$1.29 (31 December 2018: HK\$1.26).

Gearing Ratio

The Group expresses its gearing ratio as a percentage of total borrowings (including bills payable, short-term and long-term borrowings) less cash and cash equivalents (net debt), divided by total equity plus net debt. As at 30 June 2019, the gearing ratio of the Group was 0.44 (31 December 2018: 0.53).



Charges On Group's Assets

As at 30 June 2019, fixed deposits of HK\$75,171,000 (31 December 2018: HK\$119,623,000) were pledged to banks and other financial institutions to secure facilities of the Group while amounts of HK\$15,054,000 (31 December 2018: HK\$15,590,000) were pledged to banks as security in favor of one of our suppliers.

In addition to the fixed deposits, right-of-use assets in respect of leasehold land with a net carrying amount of HK\$78,038,000 (31 December 2018: HK\$79,750,000) and HK\$2,704,000 (31 December 2018: HK\$2,743,000) were pledged to secure banking facilities of the Group and Xiamen Zhong Bao, respectively, as at 30 June 2019.

Motor vehicles held under finance leases with a net carrying value of HK\$37,586,000 (31 December 2018: HK\$29,373,000) were also pledged to secure the respective borrowings as at 30 June 2019.

Contingent Liabilities

As at 30 June 2019, the Group provided bank guarantees with an aggregate principal amount of approximately HK\$158,043,000 (31 December 2018: HK\$158,599,000) in respect of banking facilities to Xiamen Zhong Bao.

Employee Information

As at 30 June 2019, the total number of employees of the Group was 814 (31 December 2018: 849). The decrease in the workforce was mainly due to cost control imposed by the Group. It is the Group's policy to review its employee's pay levels and performance bonus system regularly to ensure the remuneration policy is competitive within the industry.

Retirement Benefits

During the six months ended 30 June 2019, the Group's aggregate amount of employer's contribution under the Central Provident Fund in Singapore and the Mandatory Provident Fund in Hong Kong and the Central Pension Scheme in the PRC amounted to approximately HK\$5,323,000 (six months ended 30 June 2018: HK\$4,282,000).



Capital Structure of the Group in Debt Securities

During the six months ended 30 June 2019 and the corresponding period in 2018, the Group has no debt securities in issue.

Capital Expenditure and Capital Commitment

During the six months ended 30 June 2019, the Group incurred capital expenditure of approximately HK\$13,776,000, (six months ended 30 June 2018: HK\$28,332,000) on acquisition of property, plant and equipment.

As at 30 June 2019, there is no commitment contracted but not provided for purchase of property, plant and equipment (31 December 2018: nil).

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

Event after the Reporting Period

Subsequent to 30 June 2019 and up to the date of this report, there was no material event relevant to the business or financial performance of the Group after 30 June 2019 that comes into the attention of the Directors.

PROSPECTS

Looking ahead, the continued macroeconomic downturn and uncertainty of Sino-US trade conflicts will still continue to affect the automobile market. To cope with the impact, the Group will continue to exercise vigilant cost control to improve productivity and uphold quality service to customers. With long-term good relationship with leading automobile suppliers of premium and ultra-luxury brands, the Group is well confident to further improve its profitability while capitalizing on the steady growth of the automotive industry in the PRC and bring value to its stakeholders in the long run.

DIRECTOR'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests or short positions of Directors in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are notified to the Company and the Stock Exchange pursuant to SFO (including interests or short positions which they are taken or deemed to have under the provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rule 5.48 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company

| Name | Capacity | Number of ordinary shares held | Approximate percentage of shareholding |
|--------------------|-------------------|--------------------------------|--|
| Luo Wan Ju | Personal interest | 8,000,000 | 1.68% |
| Ma Hang Kon, Louis | Personal interest | 500,000 | 0.10% |
| Xue Guo Qiang | Personal interest | 14,412,000 | 3.03% |
| Zhang Xi | Personal interest | 500,000 | 0.10% |

Save as disclosed above, as at 30 June 2019, none of the Directors or their associates, has any interests or short position in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which are notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under the provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.



INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the persons or corporations (other than Directors or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

| Name | Capacity | Number of shares held | Approximate percentage of shareholding |
|--|---|-----------------------|--|
| Loh Nee Peng | Beneficial owner and interest of a controlled corporation (<i>Note 1</i>) | 95,260,320 | 20.00% |
| Chan Hing Ka Anthony | Interest of a controlled corporation (<i>Note 2</i>) | 28,788,033 | 6.04% |
| Tycoons Investment International Limited | Beneficial owner | 28,788,033 | 6.04% |
| Loh & Loh Construction Group Ltd. | Beneficial owner | 45,284,000 | 9.51% |
| Big Reap Investment Limited | Beneficial owner | 32,676,320 | 6.86% |
| Galligan Holdings Limited | Beneficial owner | 39,700,000 | 8.34% |
| Credit Suisse Trust Limited | Interest of a controlled corporation (<i>Note 3</i>) | 39,700,000 | 8.34% |



Notes:

1. The 95,260,320 shares are held as to 32,676,320 shares by Big Reap Investment Limited, 45,284,000 shares by Loh & Loh Construction Group Ltd as well as 17,300,000 shares directly by Mr. Loh Nee Peng. Big Reap Investment Limited is interested as to 100% by Mr. Loh Nee Peng and Loh & Loh Construction Group Ltd. is interested as to 64% by Mr. Loh Nee Peng. By virtue of Part XV of the SFO, Mr. Loh Nee Peng is deemed to be interested in the shares held by Big Reap Investment Limited and Loh & Loh Construction Group Ltd.
2. The 28,788,033 shares are held by Tycoons Investment International Limited which is interested as to 100% by Mr. Chan Hing Ka Anthony. By virtue of the SFO, Mr. Chan Hing Ka Anthony is deemed to be interested in the shares held by Tycoons Investment International Limited.
3. The 39,700,000 shares are held by Galligan Holdings Limited which is interested as to 100% indirectly held by Credit Suisse Trust Limited. By virtue of the SFO, Credit Suisse Trust Limited is deemed to be interested in the shares held by Galligan Holdings Limited.

Save as disclosed above, as at 30 June 2019, the Directors are not aware of any other person or corporation having an interest or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

None of the Directors or chief executives of the Company or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate.

COMPETING INTERESTS

During the six months ended 30 June 2019, none of the Directors or the controlling shareholders of the Company and their respective close associates had any interest in a business which competes or may compete with the business of the Group.



SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives to participants in the Share Option Scheme to contribute to the Group and enabling the Company to recruit high-calibre employees and attract human resources that are valuable to the Group.

During the six months ended 30 June 2019, no option has been granted under the Share Option Scheme.

ADVANCES TO ENTITIES

As defined in Rule 17.14 of the GEM Listing Rules, “relevant advance to an entity” means the aggregate of amounts due from and all guarantees given on behalf of (i) an entity; (ii) the entity’s controlling shareholder; (iii) the entity’s subsidiaries; (iv) the entity’s affiliated companies; and (v) any other entity with the same controlling shareholders.

Pursuant to the Rule 17.16 of the GEM Listing Rules, a disclosure obligation arises where the increment of relevant advance amount to an entity from the Group exceeds 3% under the assets ratio as defined under Rule 19.07(1) of the GEM Listing Rules (the “Assets Ratio”). As at 30 June 2019, the Company’s consolidated total assets were approximately HK\$1,513,866,000.

| | (Unaudited) As at 30 June 2019 HK\$'000 | Assets Ratio (%) | (Unaudited) As at 31 March 2019 HK\$'000 | Increment as compared to Assets Ratio (%) |
|--|--|---------------------|---|--|
| Guarantees to Zhong Bao Group <i>(note)</i> | 158,043 | 10.4 | 162,074 | 1.7 |

Note:

Such amounts include the principal amount of the facilities granted by the banks to Zhong Bao Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2019, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions.

CORPORATE GOVERNANCE

The Board also considers that the Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report as contained in Appendix 15 of the GEM Listing Rules throughout the period. Application of corporate governance policies are consistent with those adopted by the Group in the preparation of the annual consolidated financial statements for the year ended 31 December 2018.

CHANGES IN DIRECTOR'S INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Director is as follows:

- Mr. Ma Hang Kon Louis, an executive Director, has been appointed as an independent non-executive director of Carnival Group International Holdings Limited (Stock code: 996) with effective from 3 May 2019.

AUDIT COMMITTEE

Pursuant to Rule 5.28 to 5.33 of the GEM Listing Rules and Code Provision C.3.3., the Company's Audit Committee was formed on 5 June 2002 and is currently composed of, namely, Mr. Zhou Ming, Mr. Yuen Kin Pheng and Ms. Guan Xin. Mr. Zhou Ming is the Chairman of the Audit Committee.

The primary duties of the Audit Committee are mainly: (a) to review the Group's annual reports, consolidated financial statements, interim reports and quarterly reports; and (b) to review and supervise the financial reporting, risk management and internal control procedures of the Group; and (c) to liaise with the external auditor at least twice a year and provide advices and comments thereon to the Board. The Audit Committee has reviewed the 2019 interim results and provided comments thereon to the Board.



The unaudited condensed consolidated interim financial statements have been reviewed by Grant Thornton Hong Kong Limited, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants and the Audit Committee, and were approved by the Board of Directors on 7 August 2019.

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 during the six months ended 30 June 2019.

DIRECTORS OF THE COMPANY

As at the date hereof, the executive Directors of the Company are Mr. Luo Wan Ju, Mr. Choy Choong Yew, Mr. Zhang Xi, Mr. Ma Hang Kon, Louis and Mr. Xue Guo Qiang; the non-executive Director is Mr. Lin Ju Zheng; and the independent non-executive Directors are Mr. Zhou Ming, Mr. Yuen Kin Pheng and Ms. Guan Xin.

By Order of the Board
G.A. Holdings Limited
Luo Wan Ju
Chairman

Hong Kong, 7 August 2019

* *For identification purpose only*