



AUTO ITALIA

**AUTO ITALIA HOLDINGS LIMITED**  
**意 達 利 控 股 有 限 公 司**

(Incorporated in Bermuda with limited liability)  
Stock Code : 720

**2015**  
*Annual Report*







## Contents

Corporate Information	2	Consolidated Statement of Profit or Loss	37
Chairman's Statement	4	Consolidated Statement of Profit or Loss and Other Comprehensive Income	38
Management Discussion and Analysis	6	Consolidated Statement of Financial Position	39
Directors' Profiles	12	Consolidated Statement of Changes in Equity	41
Directors' Report	14	Consolidated Statement of Cash Flows	42
Corporate Governance Report	24	Notes to the Consolidated Financial Statements	44
Independent Auditor's Report	35	Five-year Financial Summary	112



---

## CORPORATE INFORMATION

### **DIRECTORS**

#### **EXECUTIVE DIRECTORS**

Mr. CHONG Tin Lung Benny *(Executive Chairman and Chief Executive Officer)*

Mr. LAM Chi Yan

Mr. JACOBSEN William Keith *(resigned with effect from 17 October 2015)*

#### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Dr. SANTOS Antonio Maria

Mr. KONG Kai Chuen Frankie\*

Mr. LEE Ben Tiong Leong

### **BOARD COMMITTEES**

#### **Audit Committee**

Mr. KONG Kai Chuen Frankie\* *(Chairman)*

Dr. SANTOS Antonio Maria

Mr. LEE Ben Tiong Leong

#### **Remuneration Committee**

Dr. SANTOS Antonio Maria *(Chairman)*

Mr. CHONG Tin Lung Benny

Mr. KONG Kai Chuen Frankie\*

Mr. LEE Ben Tiong Leong

#### **Nomination Committee**

Mr. CHONG Tin Lung Benny *(Chairman)*

Dr. SANTOS Antonio Maria

Mr. KONG Kai Chuen Frankie\*

Mr. LEE Ben Tiong Leong

### **COMPANY SECRETARY**

Mr. HON Ping Cho Terence *(resigned with effect from 1 April 2016)*

Mr. WONG Yat Tung *(appointed with effect from 1 April 2016)*

### **AUTHORISED REPRESENTATIVES**

Mr. CHONG Tin Lung Benny

Mr. HON Ping Cho Terence *(resigned with effect from 1 April 2016)*

Mr. WONG Yat Tung *(appointed with effect from 1 April 2016)*

### **REGISTERED OFFICE**

Canon's Court

22 Victoria Street Hamilton

HM12 Bermuda

\* Mr. KONG To Yeung Frankie changed his name to KONG Kai Chuen Frankie with effect from 3 March 2016.

**PRINCIPAL OFFICE IN HONG KONG**

Unit C, Ground Floor  
2 Yuen Shun Circuit  
Siu Lek Yuen  
Shatin, Hong Kong  
Tel: (852) 2365 0269  
Fax: (852) 2363 1437  
E-mail: info@autoitalia.com.hk

**PRINCIPAL BANKERS**

China CITIC Bank International Limited  
DBS Bank (Hong Kong) Limited  
Dah Sing Bank, Limited  
ORIX Asia Limited  
Standard Chartered Bank (Hong Kong) Limited  
The Bank of East Asia, Limited

**LEGAL ADVISORS****Hong Kong**

Troutman Sanders

**Bermuda**

Appleby

**AUDITOR**

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA**

Appleby Management (Bermuda) Limited  
Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

**SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG**

Tricor Standard Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**STOCK CODE**

The Stock Exchange of Hong Kong Limited: 720

**WEBSITE ADDRESS**

[www.autoitalia.com.hk](http://www.autoitalia.com.hk)

## CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present to our shareholders the annual report of Auto Italia Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015.

As I had foreseen in my statement in last year's annual report, our business for the year ended 31 December 2015 was indeed adversely affected by the uncertain retail sentiment on the luxury products market in Hong Kong. In the face of this unfavourable business environment, the car business of our Group recorded an annual drop in overall unit sales. Our Group revenue for the year ended 31 December 2015 was HK\$973.0 million, which dropped by 11.1% from last year. Nevertheless, the profit attributable to shareholders slightly increased to HK\$27.7 million, as compared to a profit of HK\$27.5 million for the year ended 31 December 2014.

As highlighted in my statement in the 2014 annual report, with the upgrading of the showroom in Repulse Bay to a Ferrari mono-brand showroom and the grand opening of our Maserati mono-brand flagship showroom in Kowloon Bay, coupled with our pioneering sales and marketing strategies, we recorded growth for showroom traffic and improved our market presence in the luxury car sector.

2015 also saw the opening of our newly refurbished after-sales service centre in Shatin and the brand new pre-delivery car inspection and body paint centre in Sheung Shui. Drawing on the full utilization of the increase in facility capacity in the Shatin workshop and the expertise of our dedicated management and experienced mechanics, I am delighted to report that we had made remarkable improvement in shortening our average service delivery timeline for the Ferrari and Maserati brands and had recorded an increase in after-sales revenue.



## Chairman's Statement

With the implementation of a renewed standard operation procedure in September 2015, we are endeavouring to maximize our performance in order to provide first class services to our customers. A tougher business environment may well serve as a catalyst for us to take a decisive step forward toward sustainable growth, prompting us to commit to expand our determined efforts to streamline our operation practices, to reduce operating cost base significantly and to strengthen our culture for long-term success.



With growing concerns over unhelpful business environment and global slowdowns, our outlook for 2016 is inherently uncertain. Nonetheless, with the latest models Ferrari 488 Spider and Maserati SUV Levante due to be launched and with our vision of providing high quality, consistent, comprehensive and cost-efficient after-sales services to our customers, I am optimistic that our car business will remain gainful to our shareholders.

As at the date of my report, Mr. Hon Ping Cho, Terence had tendered his resignation as our Chief Financial Officer and Company Secretary for his other career development. I would like to express my appreciation and gratitude to Mr. Hon for his contribution to the Company during his past years of service.

On behalf of the Board, I would like to extend my sincere gratitude to all our shareholders, customers, principals, suppliers and business partners for their enduring trust and support for the Group. I would also like to express my appreciation for my management team and all the employees of the Group for their continuing dedication and valuable contribution.

**CHONG Tin Lung Benny**

*Executive Chairman &  
Chief Executive Officer*

Hong Kong, 22 March 2016

## MANAGEMENT DISCUSSION AND ANALYSIS



expansion of the classic car market, we will further invest our resources in promoting the Ferrari Classiche Programme at our Hong Kong's only approved Classiche certification workshop. In 2016, we aim to further enhance the performance of our Pre-Owned Car business by enlarging the inventory as well as broadening the range of cars available. We strive to provide excellent services to our customers, whether buying a brand new or pre-owned car from us.



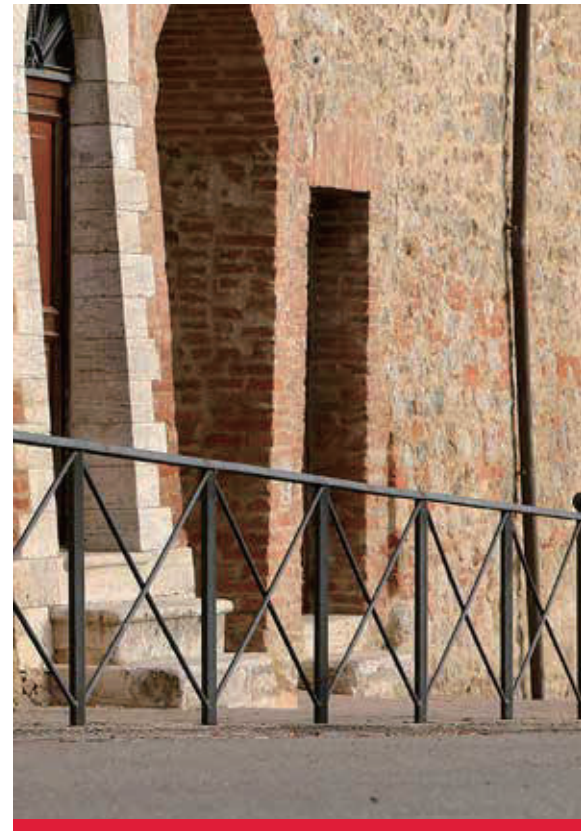
### BUSINESS REVIEW

#### Ferrari

In 2015, the overall deliveries of new Ferrari cars had recorded a mild growth as compared to 2014. This growth was supported by the latest model California T, the special limited edition of 458 Speciale A, as well as the 12 cylinder flagship F12berlinetta. In the second half of 2015, Ferrari announced the F12TDF, the special limited edition of 799 units worldwide and the successor of the legendary 599GTO, featuring 780 horsepower and innovative four wheel steering system, which makes the F12TDF one of the most desirable items in the luxury car market and we have secured a number of allocations for our collectors in Hong Kong.

Our Pre-Owned Car business has continued to bring premium quality pre-owned Ferraris by conducting the "Ferrari Approved" check based on the factory guidelines on used Ferraris of under 10 years old for all our stock Pre-Owned Ferraris, customers purchasing our Ferrari Approved cars will receive quality used Ferrari in the market with one year warranty. To cope with the

In marketing and communications aspects, we have proven ourselves for another year in terms of driving sales and strengthening customer relations. We have built a strong bond with customers by creating opportunities for them to drive their





---

## Management Discussion and Analysis

Ferraris. We organised a Driving Experience Event at the Asia World Expo in March 2015, as well as a track day with 488GTB test drive event in September 2015. Moreover, we launched the 488GTB in Hong Kong in August 2015 and achieved an astonishing result in new order intakes. In 2016, we are looking forward to the launch of the 488Spider and will work with our greatest passion in providing more dynamic events to Ferrari owners and prospective buyers in Hong Kong.

### Maserati

Against the challenging market instability in 2015, Maserati had sustained a drop in overall sales units as compared to that of 2014. Nevertheless, with a significant growth of nearly 10 percentage points from the previous year, we achieved a record high market share of 22% in the Maserati segment. This success was mainly driven by the continued growth of market acceptance in our sedan variants, Quattroporte and Ghibli, while the market remains in strong demand for the exclusive and luxury vehicle choices.

The opening of the 9,000 plus square feet Maserati Kowloon Bay Flagship Showroom enabled comprehensive brand coverage and connectivity in the territory with state-of-the-art sales facilities. With full-range model displays and pre-owned selections, the new flagship showroom offered a premium shopping experience for our customers and demonstrated the latest brand attributes as well as generated about a mid-double digit increase of overall showroom traffic in the two Maserati sales locations since the opening of the Maserati Kowloon Bay Flagship Showroom in June 2015.

In marketing aspect, Maserati generated substantial brand exposure through the participation in the 62<sup>nd</sup> Macau Grand Prix as the official event car sponsor. The sponsorship will be continued in 2016 to strengthen our market presence and to demonstrate our core brand values of racing and performance.





### After-sales Service

With 11 months of full operation due to the refurbishment of our Shatin Service Centre and the establishment of a dedicated Body and Paint Centre in Sheung Shui, overall after-sales service revenue in 2015 was still maintained at a similar level to that of 2014.

The strategic reconfiguration of after-sales operation has resulted in a year-on-year increase in revenue from higher margin services, such as collision repair, spare parts sales and an approximately 6.3 percentage points increase in overall profit margin. This focus on balanced income stream will help mitigate the historical cyclicity commonly associated with automotive retail business.

In addition to the positive financial impact, we have been able to further reduce Ferrari and Maserati average repair time by approximately half. Our average service appointment waiting time has also been able to meet the regional industry standard.

### OUTLOOK

Looking ahead, with the new SUV Levante in the pipeline, Maserati will be opening up to completely new customer segments. We expect that unit sales will be stimulated and will continue to grow in the next couple of years. Preparations are underway for the opening of new Maserati sales and after-sales facilities in Macau with official brand presence which will pave the way for our further growth.

For Ferrari business, we brought the new generation of V8 Sports Car 488GTB to Hong Kong in August 2015 and with the strong demand on this new model, we are certain that the deliveries of 488GTB will boost our unit sales to a new level in 2016.







Due to the variance in brand DNA, market and customer segment of Ferrari and Maserati, the Group will continue to focus on brand separation in after-sales operation, which means dedicated resources and personnel are specifically assigned for each prestige brand we represent. This separation will enable us to positively impact customer loyalty, service car parc penetration and overall customer satisfaction.

For our pre-delivery inspection operation in mainland China, in spite of trepidation in economic environment for the immediate future, we are projecting an increase in unit deliveries due to new model introduction.

## FINANCIAL REVIEW

### CAR DIVISION

#### Revenue

For the year ended 31 December 2015, the Car division's revenue decreased by 11.0% to HK\$955.6 million (2014: HK\$1,073.4 million) as mainly affected by the closure of the Nanjing dealership business in the second half of 2014.

In mainland China, excluding the impact of closure of Nanjing operation, the revenue generated from our pre-delivery inspection and warranty services in Shanghai increased two-fold to HK\$103.2 million driven by the introduction of the warranty services.

In Hong Kong, against the challenging business environment in 2015, our revenue from this location maintained at HK\$852.4 million (2014: HK\$852.9 million) including the additional revenue contribution from pre-delivery inspection service business for the Audi brand that commenced on 1 September 2015.





---

 Management Discussion and Analysis

**Cost of Sales and Gross Profit**

Gross profit margin in 2015 recorded an increase from 21.0% in 2014 to 24.6% in 2015. Accordingly, our gross profit was increased from HK\$225.8 million in 2014 to HK\$235.3 million in 2015. The increase of HK\$9.5 million was mainly contributed by our operation in Shanghai.

**Other Income**

For the year ended 31 December 2015, other income amounted to HK\$21.8 million (2014: HK\$38.6 million). The net decrease of HK\$16.8 million was mainly caused by the decrease in subsidies income from our suppliers following the closure of the Nanjing dealership business in the second half of 2014.


**Other Gains and Losses**

Other gains and losses amounted to a net loss of HK\$8.0 million (2014: loss of HK\$2.6 million) which included a net foreign exchange loss of HK\$7.2 million and an impairment of trade and other receivables of HK\$0.8 million.

**Selling and Distribution Costs and Administrative Expenses**

Selling and distribution costs and administrative expenses in 2015 aggregated to HK\$216.9 million (2014: HK\$225.5 million), which accounted for 22.7% (2014: 21.0%) of revenue. The net decrease of HK\$8.6 million was mainly due to a decrease in staff related cost resulting from the absence of a one-off staff redundancy cost for the closure of our Nanjing operations in 2014, but partially offset by an increase in rental cost including additional rental cost for the newly opened Maserati Showroom in Kowloon Bay.


**Finance Costs**

Finance costs in 2015 were reduced by 50.8% to HK\$2.9 million (2014: HK\$5.9 million).

**FINANCIAL INVESTMENTS AND SERVICES DIVISION**
**Operating Results**

For the year ended 31 December 2015, the revenue of Financial Investments and Services division decreased to HK\$17.5 million (2014: HK\$20.1 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit decreased by 6.8% to HK\$17.9 million (2014: HK\$19.2 million).

During the year, the Group subscribed to convertible bonds with a coupon rate of 5% per annum payable on the date of redemption and in an aggregate principal amount of HK\$25 million. The Group recognised a fair value gain of the derivative component of investments in convertible bonds of HK\$0.8 million and effective interest income of HK\$0.8 million in 2015.

**PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

Profit attributable to shareholders of the Company for the year was HK\$27.8 million, which increased by 0.7% as compared with HK\$27.6 million in 2014. The improved Group's performance was the result of an improvement in gross profit margin in the Car division and the full year impact of 100% profit contribution from our Car division after the completion of the acquisition of its remaining interest from a non-wholly owned subsidiary in August 2014.

## LIQUIDITY AND FINANCIAL RESOURCES

### **Cash Flow**

In 2015, the Group financed its operations primarily through cash from the Group's operations. The Group invested HK\$37.2 million in its capital expenditure which was mainly for the new Maserati mono brand showroom in Kowloon Bay, enhancement of the after-sales facilities and purchase of demo cars for sales display purpose.

The Group also made a subscription of convertible bonds of HK\$25 million with a coupon rate of 5% per annum under Financial Investments and Services division.

### **Cash and Cash Equivalents**

As at 31 December 2015, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$267.3 million as compared with HK\$328.8 million as at 31 December 2014, which were denominated in Hong Kong dollars (as to 59%), U.S. dollars (as to 24%) and Renminbi (as to 17%).

### **Bank and Other Borrowings**

As at 31 December 2015, the Group had bank and other borrowings totalling HK\$112.1 million (2014: HK\$92.6 million), of which HK\$6.6 million were repayable more than one year. Net cash position as at 31 December 2015 was HK\$155.2 million (2014: HK\$236.2 million), no gearing ratio is presented.

### **Loan Receivables**

During the year, the Group had engaged in Financial Investments and Services Business, which included the provision of loan financing. As at 31 December 2015, the Group had outstanding secured loans lent to customers totalling HK\$76 million (31 December 2014: HK\$79.3 million), which carry an interest rate of 8.0% per annum and were repayable within 12 months.

## PLEDGE OF ASSETS

As at 31 December 2015, certain of the Group's properties, bank deposits, inventories totalling HK\$119.2 million (2014: HK\$119.8 million) were pledged as securities for relevant bank loans and other bank facilities granted.

## CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2015, the Group had total capital commitments (authorised but not contracted for) of HK\$16.4 million (2014: HK\$31.9 million), primarily related to registration of demo cars for sales display purpose in showrooms. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2015, the Group had no material contingent liabilities.

## HUMAN RESOURCES

The Group employed a total of 213 employees as at 31 December 2015. The Group believes that people are the most valuable asset for supporting its business growth. To this end, competitive remuneration packages and benefits programs as well as learning and development opportunities are provided to attract, motivate and retain talented employees.

The Group continues its contribution to local communities through active participation in charitable events such as donations and volunteer works for the elderly and the disadvantaged.



---

## DIRECTORS' PROFILES

### **Mr. CHONG Tin Lung Benny**

*Executive Director, Executive Chairman and Chief Executive Officer*

Aged 43, was appointed as an Executive Director and the Vice-Chairman of the Company on 13 June 2013 and has been re-designated as the Executive Chairman of the Company, the Chairman of each of the Nomination Committee, Executive Directors' Committee and Financial Control Committee of the Board and has been appointed as the chief executive officer of the Company on 24 October 2013. He is the chairman of VMS Investment Group Limited ("VMSIG"), a substantial shareholder of the Company. Mr. Chong has accumulated over 20 years of experience in the financial and investments industry. VMSIG is the holding company of a group of companies principally engaged in the provision of proprietary investments, asset management, securities brokerage and corporate finance advisory services, and indirectly owns approximately 28.79% shareholding in the Company. Mr. Chong founded the VMS Investment Group in 2006 and is a Chartered Financial Analyst. Mr. Chong obtained a Bachelor of Science in Commerce from the University of Toronto in 1994 and a Master of Science in Financial Engineering from the Hong Kong University of Science and Technology in 2000.

### **Mr. LAM Chi Yan**

*Executive Director*

Aged 49, was appointed as an Executive Director on 13 June 2013. He has over 25 years of experience in the automotive industry. Prior to joining the Group, Mr. Lam was a senior executive of a dealer group in a leading European luxury-sport automobile brand managing dealerships in various major cities in Guangdong Province of the PRC from 2005 to 2012. He also served as a Consultant for AI Administration Limited, a wholly-owned subsidiary of the Company, from January 2013 to June 2013. Mr. Lam obtained a Bachelor's degree in Industrial Management from San Francisco State University in 1994. He also holds an Associate's degree in Business Administration and Automotive Engineering from Skyline College, California, United States of America.

### **Dr. SANTOS Antonio Maria**

*Independent Non-executive Director*

Aged 59, was appointed as an Independent Non-Executive Director, a member of each of the Nomination Committee and Audit Committee on 1 September 2012, and was appointed as the chairman of the Remuneration Committee of the Company with effect from 27 February 2015. He obtained a PhD in Business Administration from the Nueva Ecija University of Science & Technology in the Philippines, a Master of Arts in Management Studies from the University of Northumbria at Newcastle in the United Kingdom and a Master of Science in Criminal Justice from the Tarlac State University, the Philippines. Dr. Santos is a fellow of the Chartered Management Institute, the United Kingdom. He retired from the Hong Kong Police Force in January 2012 after more than 30 years of service there. Apart from volunteering for community services, he is currently a director and a shareholder of Advance Tactics Service Limited (a private company principally engaged in providing personal and commercial risk management services in Hong Kong and the Greater China region). Dr. Santos is also currently a director and a shareholder of A. M. Santos & Company Limited (a private company incorporated in Hong Kong) and United Partners Incorporated (a private company incorporated in the British Virgin Islands), both of which are principally engaged in providing financial consultancy services. He was formerly an executive director and chairman of China Solar Energy Holdings Limited (Stock code: 155), a listed company in Hong Kong with the trading of shares having been suspended, from October 2014 to May 2015. Dr. Santos is currently an independent non-executive director of Mason Financial Holdings Limited (Stock code: 273) and Imagi International Holdings Limited (Stock code: 585), both shares of which are listed on the Main Board of the Stock Exchange.



**Mr. KONG Kai Chuen Frankie\****Independent Non-executive Director*

Aged 52, was appointed as an Independent Non-executive Director, the chairman of the Audit Committee, a member of each of the Nomination Committee and the Remuneration Committee of the Company on 21 June 2013. Mr. Kong is currently a financial controller of a private company and an independent non-executive director of Ka Shui International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 822). He is an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Association of Certified Accountants (the United Kingdom). Mr. Kong has accumulated over 25 years' experience in accounting, auditing, corporate finance and project administration mostly from Hong Kong listed companies and multinational business conglomerates.

**Mr. LEE Ben Tiong Leong***Independent Non-executive Director*

Aged 54, was appointed as an Independent Non-executive Director on 27 February 2015 and is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Lee is currently the Managing Partner of IGamiX Management & Consulting Ltd., based in Macau, as well as CEO of Strategic Gaming Solutions Inc, based in Saipan. He is widely acknowledged as one of the region's experts on the Asian gaming market and is a regularly invited speaker at major gaming conferences all around the world. Mr. Lee is a multi-skilled senior gaming executive with particular focus on Asian marketing in the gaming space. With extensive gaming experience all over Asia and Australia, Mr. Lee spent the last twelve years covering/uncovering new gaming projects around Asia-Pacific and is currently providing consultation to numerous companies on the latest developments in the region. Mr. Lee was awarded a Master of Business Administration and a Postgraduate Diploma in Management Studies from the University of Melbourne in 2000 and 1997, respectively. Mr. Lee was also awarded a Graduate Diploma in Japanese from Swinburne University of Technology in 1991 and a Bachelor of Economics from Monash University in 1985.

---

## DIRECTORS' REPORT

The Directors present this Annual Report (the "Report") and audited consolidated financial statements for the financial year ended 31 December 2015 of the Company and its subsidiaries (together, the "Group").

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities and other particulars of the principal subsidiaries are set out in Note 37 to the financial statements.

### BUSINESS REVIEW

A review of the business of the Group and a discussion and analysis of the Group's performance during the year ended 31 December 2015 and a discussion on the Group's future business development and outlook of the Group's business and the permitted indemnity provision are provided in the sections headed "**Chairman's Statement**" on pages 4 to 5, "**Management Discussion and Analysis**" on pages 6 to 11 and "**Corporate Governance Report – Directors' and Officers' Liabilities Insurance**" on page 27 of this Report respectively. This discussion forms part of this Directors' Report.

### Compliance with Laws and Regulations

As at 31 December 2015 and up to the date of this Report, the Board was unaware of any non-compliance with the applicable laws and regulations, which included the Companies Act of Bermuda, the Listing Rules and other laws and regulations, that have a significant impact on the Company.

### Staff Activities

The Group strives to help our employees to maintain a balance between their work and personal lives. In 2015, a total of 5 events were organised and they were all well received by our employees.

### Corporate Social Responsibilities

Cherishing the idea of social commitment, we are dedicated to fulfilling our duties to our Shareholders, living up to the trust of our customers, benefiting our principal partners and contributing, with gratitude to our employees.

With the aim of delivering value to our Shareholders, customers and employees, we are also concerned about social well-being and so we always endeavor to fulfill our social responsibilities, thus creating a win-win situation for all stakeholders. Over the past year, the combination of responsible disposal of chemical wastage pursuant to government by-law, effective customer satisfaction index survey, energy conservation and proactive participation in local charity causes have achieved positive results.

### **Waste Disposal**

All chemical by-products from our operations are handled and processed by government approved licensed partners to minimise the negative impact on the environment. In addition, these partners are evaluated by us on a regular basis to ensure that the services promised are duly delivered.

### **Energy Conservation**

Re-investments in the latest equipment, building renovations and I.T. infrastructures resulted in a significant reduction in our carbon footprint and healthier workshop place for both our customers and employees.

In 2015, we joined Earth Hour organized by WWF. Being a responsible company, we continue to strive to operate in a more environmental-friendly way by using fewer natural resources, saving energy and reducing waste.

### **Awards**

The Group was awarded the Caring Company Logo in 2015, launched by the Hong Kong Council of Social Service. The Caring Company Logo is awarded to companies which demonstrate good corporate citizenship. It aims to promote corporate social responsibility through caring for the community, our employees and the environment. The Group was awarded a Social Caring Pledge Logo by the Social Enterprise Research Institute because of our continuous contribution in "Energy Conservation" and "Community Volunteers". The Social Caring Pledge is a voluntary agreement about harnessing enterprises towards social responsibility and care. The Social Caring Pledge's primary purpose is to ensure public confidence that all people and entities who need care and support services will always be treated with dignity and respect.

### **Customer Satisfaction and Protection**

Comprehensive surveys and subsequent analysis on customer satisfaction allow us to keep our finger on the pulse of our customers, enabling us to create, modify or eliminate types of services offered to effectively and efficiently serve our clients. Moreover, we highly respect our customers' personal data and have devised a privacy policy on how we handle customers' personal data.

### **Business Partners**

Our business partners set strict operational and financial standards for its network of authorised dealers. These standards are also audited by them regularly and we strictly comply with.

## **SEGMENT INFORMATION**

Details of segment information are set out in Note 7 to the financial statements.



---

Directors' Report

## **FINANCIAL STATEMENTS**

The financial results of the Group for the year ended 31 December 2015 and the state of the Company and the Group's affairs as at that date are set out in the financial statements on pages 35 to 111 of this Report.

## **DIVIDENDS**

The Directors do not recommend the payment of a final dividend (2014: Nil) for the year ended 31 December 2015. No interim dividend was paid during the year (2014: Nil).

## **GROUP FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 112.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the share capital of the Company during the year are set out in Note 27 to the financial statements. Information about the share options of the Company and details of movements in the share options of the Company during the year are set out in the "Share Option Scheme" section in this Report and in Note 29 to the financial statements.

## **RESERVES**

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and reserves of the Company on page 41 and page 111 of this Report respectively.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in property, plant and equipment of the Group during the year are set out in Note 16 to the financial statements.

## **DONATIONS**

During the year, the Group made charitable and other donations of HK\$61,800 (2014: HK\$31,200).

## **BORROWINGS**

Details of the Group's borrowings are set out in Note 24 to the financial statements. No interest was capitalised by the Group during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for 75.6% of the Group's purchases during the year, 39.6% being attributable to the largest supplier. The percentage of turnover attributable to the Group's five largest customers is less than 14.9% during the year.

As far as the Directors are aware, no Director, their associates or any Shareholder (who to the knowledge of the Directors owns more than 5% of the Company's share capital) has interest in the Group's five largest suppliers.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There was no contract of significance between the Company or any of its subsidiary companies, and a controlling Shareholder or any of its subsidiaries for the year ended 31 December 2015. There was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries for the year ended 31 December 2015.

## DIRECTORS

The Directors who held office during the year and up to the date of this Report are:

### Executive Directors

Mr. CHONG Tin Lung Benny

Mr. LAM Chi Yan

Mr. JACOBSEN William Keith (*resigned with effect from 17 October 2015*)

### Independent Non-executive Directors

Dr. SANTOS Antonio Maria

Mr. KONG Kai Chuen Frankie\*

Mr. LEE Ben Tiong Leong (*appointed with effect from 27 February 2015*)

In accordance with Bye-law 99 of the bye-laws of the Company ("Bye-laws"), Mr. CHONG Tin Lung Benny and Dr. SANTOS Antonio Maria will retire from office by rotation at the forthcoming annual general meeting (the "AGM") and, being eligible, offer themselves for re-election.

The Independent Non-executive Directors are also subject to retirement by rotation in accordance with the Bye-laws. The Company has received from each Independent Non-executive Director a confirmation of his independence pursuant to the independence assessing factors guidelines set out in Rule 3.13 of the Listing Rules. The Company considers the Independent Non-executive Directors to be independent.

---

Directors' Report

## **CHANGES IN INFORMATION OF DIRECTORS**

Dr. SANTOS Antonio Maria was appointed as an independent non-executive director of Imagi International Holdings Limited (stock code: 585), shares of which are listed on the Main Board of the Stock Exchange, with effect from 28 January 2016.

Mr. KONG Kai Chuen Frankie (formerly known as KONG To Yeung Frankie) changed his name with effect from 3 March 2016. On 15 March 2016, he was appointed as a financial controller of a private company which manufactures and sells printed circuit boards.

## **DIRECTORS' SERVICE CONTRACTS**

None of the Directors who is proposed for re-election at the AGM has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

At 31 December 2015, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

- (a)(i) None of the Directors held any beneficial interests and long positions in the Shares.
- (a)(ii) None of the Directors held any short positions in the Shares.
- (b) Beneficial interests and short positions in underlying shares of equity derivatives of the Company at 31 December 2015 are disclosed in the section headed "**Share Option Scheme**" of this Report.



## **DIRECTORS' INTERESTS IN ASSETS AND/OR ARRANGEMENT**

At 31 December 2015, none of the Directors had any other direct or indirect interest in any assets which have been acquired or disposed of by or leased to any members of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

At 31 December 2015, there was no other transaction, contract or arrangement subsisting in which a Director or any entity connected with him was materially interested and which was significant in relation to the business of the Group as a whole.

## **DIRECTORS' INTERESTS IN CONTRACTS**

There was no contract of significance in relation to the Group business, to which the Company or any of its subsidiaries was a party and in which a Director had, whether directly or indirectly, a material interest subsisting at the end of the year or at any time during the year ended 31 December 2015.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

None of the Directors (including Independent Non-executive Directors) was interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business during the year.

## **ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed in section of "**Share Option Scheme**", at no time during the year ended 31 December 2015 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares or debentures of the Company or any other body corporate.

---

Directors' Report

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

So far as is known to the Directors, no other person had, or was deemed or taken to have an interest or short position of 5% or more of the interests in the Shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

<b>Shareholder(s)</b>	<b>Number of Shares</b>	<b>Number of underlying shares of equity derivatives</b>	<b>Approximate % of the total issued Shares<sup>#</sup></b>
Gustavo International Limited	304,725,000 <sup>(Note)</sup>	–	5.86%
Maini Investments Limited	304,725,000 <sup>(Note)</sup>	–	5.86%
VMS Investment Group Limited ("VMSIG")	1,498,016,472 <sup>(Note)</sup>	–	28.79%
VMS Holdings Limited ("VMSH")	1,498,016,472 <sup>(Note)</sup>	–	28.79%
Ms. MAK Siu Hang Viola	1,498,016,472 <sup>(Note)</sup>	–	28.79%

<sup>#</sup> Based on the total issued Shares of 5,203,951,190 at 31 December 2015.

*Note: VMSIG and parties acting in concert with it are interested in an aggregate of 1,498,016,472 Shares, of which 1,193,291,472 Shares are held by VMSIG and 304,725,000 Shares are held by Gustavo International Limited (a company owned as to approximately 80% by Maini Investments Limited, a wholly owned subsidiary of VMSIG which is in turn wholly-owned by VMSH.). VMSH is wholly-owned by Ms. MAK Siu Hang Viola.*

All interests in Shares and underlying shares of equity derivatives of the Company are long positions. None of the substantial Shareholders held any short positions in the Shares or underlying shares of equity derivatives of the Company.

## SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 28 May 2012 (the "Option Scheme"), options were granted to certain Directors, employees, and other eligible participants of the Company entitling them to subscribe for shares of HK\$0.02 each in the capital of the Company.

Under the Option Scheme, the Board may at their discretion grant options to the following participants of the Company, its subsidiaries and any company in which the Group holds any equity interest, to subscribe for Shares in the Company:

1. any employee or proposed employee (whether full time or part time employee, including any executive Director but not any non-executive Director) of the Company, its Subsidiaries and any entity in which the Group holds any equity interest (the "Invested Entity");
2. any non-executive Director (including independent non-executive Director) of the Company, any of its Subsidiaries or any Invested Entity;
3. any supplier of goods or services to any member of the Group or any Invested Entity;
4. any customer of the Group or any Invested Entity;
5. any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
6. any Shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
7. any employee, partner or director of any business partner, joint venture partner, financial adviser and legal adviser of and to any member of the Group or any Invested Entity.

Options granted to a Director, chief executive or substantial Shareholder of the Company, or any of their respective associates, shall be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is a grantee of the options).

The total number of shares which may be issued upon exercise of all outstanding options granted under the Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options granted under the Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the Option Scheme without prior approval by the Shareholders.

Since the Shareholders approved to refresh the 10% limit on grant of share options under the Option Scheme at the 2015 AGM on 20 May 2015, the number of shares in respect of which options had been granted and remained outstanding under the Option Scheme was 708,198,039 shares, representing approximately 13.61% of the issued share capital of the Company as at the date of this Report. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total issued share capital of the Company, without prior approval by the Shareholders.

## SHARE OPTION SCHEME (CONTINUED)

Options granted to a substantial Shareholder or an independent non-executive Director, or any of their respective associates, under the Option Scheme and any other share option schemes of the Company would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period in aggregate in excess of 0.1% of the Company's issued share capital and with an aggregate value, based on the closing price of the shares of the Company at the date of each grant, in excess of HK\$5 million must obtain prior approval from the shareholders of the Company.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$1.00 per each grant of options. The exercise period of the options granted under the Option Scheme shall be determined by the Board when such options are granted, provided that such period shall not end later than 6 years from the date of grant.

The subscription price is determined by the Board and will not be lower than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of grant, which must be a trading day, and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant, and (iii) the nominal value of a Company's share.

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the year ended 31 December 2015 were as below:

Name or category of participants	Date of grant	Exercise price (HK\$)	Exercisable Period	As at 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2015
<b>(a) Directors</b>								
Mr. CHONG Tin Lung Benny	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(2)</sup>	51,891,000	-	-	-	51,891,000
Mr. JACOBSEN William Keith (Resigned with effect from 17 October 2015)	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(2)</sup>	18,700,000	-	(7,480,000) <sup>(4)</sup>	(11,220,000)	-
Mr. LAM Chi Yan	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(2)</sup>	18,700,000	-	-	-	18,700,000
Dr. SANTOS Antonio Maria	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(3)</sup>	1,500,000	-	-	-	1,500,000
Mr. KONG Kai Chuen Frankie <sup>(5)</sup>	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(3)</sup>	1,500,000	-	-	-	1,500,000
<b>(b) Employees in aggregate</b>								
	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(2)</sup>	68,783,000	-	(7,292,800) <sup>(4)</sup>	(5,208,000)	56,282,200
	20/04/2015	0.351	20/04/2016 to 19/04/2021 <sup>(2)</sup>	-	22,617,000	-	-	22,617,000
<b>(c) Other eligible participants</b>								
	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(2)</sup>	40,000,000	-	-	-	40,000,000
<b>Total</b>				<b>201,074,000</b>	<b>22,617,000</b>	<b>(14,772,800)</b>	<b>(16,428,000)</b>	<b>192,490,200</b>



## SHARE OPTION SCHEME (CONTINUED)

Notes:

- (1) The closing prices per Share immediately before 16 October 2014 and 20 April 2015 (the dates on which the share options were granted) were HK\$0.187 and HK\$0.335 respectively.
- (2) Share options granted under the Option Scheme on 16 October 2014 and 20 April 2015 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
First anniversary of the Date of Grant	40% of the total number of options granted
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	30% of the total number of options granted

- (3) Share options granted under the Option Scheme on 16 October 2014 vested in the grantees in accordance with the date falling on the end of the sixth month from the date of grant.
- (4) The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised during the year was HK\$0.400.
- (5) Mr. Kong To Yeung Frankie changed his name to KONG Kai Chuen Frankie with effect from 3 March 2016.

## PUBLIC FLOAT

At the date of this Report, based on information that is publicly available to the Company, the Directors acknowledge that more than 25% of the issued share capital of the Company is held by the public.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2015, the Company and its subsidiaries have not repurchased, sold or redeemed any of the Company's securities.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws in Bermuda although there is no restriction against such rights under the laws in Bermuda.

## AUDITOR

During the year ended 31 December 2015, Messrs. Deloitte Touche Tohmatsu was re-appointed as auditor of the Group to hold office until the conclusion of the AGM.

The financial statements for the year were audited by Messrs. Deloitte Touche Tohmatsu who will retire at the AGM and being eligible, offer itself for re-appointment.

For and on behalf of the Board

**CHONG Tin Lung Benny**  
Executive Chairman & CEO

Hong Kong, 22 March 2016

---

## CORPORATE GOVERNANCE REPORT

Maintaining an effective corporate governance framework is one of the priorities of the Company. This includes informing our shareholders of our corporate practices in our Report. In the opinion of the Directors, the Company had complied with all the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2015, except Code Provisions A.2.1 of the CG Code which are explained in the sub-section headed “**Chairman and Chief Executive Officer**” below.

The corporate governance principles of the Company emphasize a quality board, sound internal control, and transparency and accountability to all Shareholders. The Board will continue to review and improve the corporate practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for the Shareholders.

### THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as standard for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors by the Company, during the year ended 31 December 2015, the Directors have confirmed in writing that they have complied with the standards set out in the Model Code.

### THE BOARD OF DIRECTORS

We are governed by the Board which assumes the responsibility for leadership and control of the Company. Our Directors are collectively responsible for promoting the success of the Company by directing and supervising the affairs of the Company.

As at the date of this Report, the Board comprises five members, of whom two are Executive Directors and three are Independent Non-executive Directors.

Directors who held office during the year and up to the date of this Report are:

#### Executive Directors

Mr. CHONG Tin Lung Benny

Mr. LAM Chi Yan

Mr. JACOBSEN William Keith *(resigned with effect from 17 October 2015)*

#### Independent Non-executive Directors

Dr. SANTOS Antonio Maria

Mr. KONG Kai Chuen Frankie\*

Mr. LEE Ben Tiong Leong *(appointed with effect from 27 February 2015)*

## THE BOARD OF DIRECTORS *(Continued)*

The Listing Rules require every listed issuer to have Independent Non-executive Directors who represent at least one-third of the Board, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Mr. KONG Kai Chuen Frankie (formerly known as KONG To Yeung Frankie), one of the Independent Non-executive Directors, is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Each Independent Non-executive Director is required to confirm his independence in accordance with Rule 3.13 of the Listing Rules annually.

The Company has made its best endeavours to identify suitable candidate to fill in the vacancy upon the resignation of Mr. TAN Boon Seng, a former Independent Non-executive Director. Upon the appointments of (a) Mr. LEE Ben Tiong Leong as an Independent Non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee, and (b) Dr. SANTOS Antonio Maria as the chairman of the Remuneration Committee, all with effect from 27 February 2015, the requirements of (i) the number of the independent non-executive directors under Rules 3.10 and 3.10A of the Listing Rules; (ii) the number of the members of the audit committee of the Company under Rule 3.21 of the Listing Rules; and (iii) the remuneration committee is chaired by an independent non-executive director, under Rule 3.25 of the Listing Rules, have been fulfilled by the Company.

None of Directors has any family, financial or business relations with each other.

The biographies of our Directors are set out in the section headed “**Directors’ Profiles**” in this Report. Details of the biographies of the Directors seeking re-election at the AGM are set out in the circular issued by the Company and sent to our Shareholders together with this Report.

The Company also maintains on its website ([www.autoitalia.com.hk](http://www.autoitalia.com.hk)) an updated biography of each Director. A list of Directors and their roles and functions has also been published on the websites of the Company and Hong Kong Exchanges and Clearing Limited (“Hong Kong Exchange”) respectively.

The Board meets regularly, normally four times each year and additional meetings will be arranged if and when necessary. Notice of each regular Board meeting will be given to all Directors at least 14 days before the meeting. Special Board meetings will be held as and when necessary. Matters on transactions where Directors are considered having conflict of interests or material interests will not be dealt with by way of written resolutions and a separate Board meeting shall be held where Independent Non-executive Directors who have no material interests shall be present in the meeting. In addition, Directors considered having conflict of interests or material interests in the matters before the Board are required to declare their interests and abstain from voting for the relevant resolution.

Appropriate notices are given to all Directors for attending regular Board meetings and other meetings. A package containing agenda and all the relevant information is normally despatched to the Directors 3 days in advance of the relevant meetings.

Board meetings involve the active participation, either in person or through electronic means of communication, of a majority of Directors. The Company Secretary assists the Executive Chairman in preparing the meeting agenda, and each Director may request the inclusion of items in the agenda.

Directors are also consulted on matters to be included in the agenda for all regular Board meetings.

Minutes of the Board meetings are recorded in detail and draft minutes are circulated to all Directors for review and comment within a reasonable time after the Board meetings are held. All the minutes of the meetings are properly kept by the Company Secretary after approval and are available for inspection following reasonable notice by the Directors.

## **THE BOARD OF DIRECTORS** *(Continued)*

### **Chairman and Chief Executive Officer**

Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Company deviates from this provision in that Mr. CHONG Tin Lung Benny is the Executive Chairman and the Chief Executive Officer of the Company. Mr. Chong has extensive experience in corporate management and securities investments and is responsible for the overall corporate strategies, planning and business development of the Group. The Board considers that the vesting of two roles in the same person provides our Group with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategy.

The Company shall nevertheless review the structure from time to time in light of the prevailing circumstances.

### **Appointment, Re-Election and Removal of Directors**

All Directors, including those appointed for a fixed term, are subject to retirement by rotation pursuant to the Bye-laws. A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next general meeting. According to Code Provision A.4.2 of the CG Code, every director should be subject to retirement by rotation at least once every three years.

## **DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT**

Each newly appointed Director would receive an induction package covering the statutory and regulatory obligation of a director of a listed company. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills in their roles as directors pursuant to code provision A.6.5 of the CG Code. Attendance to any professional courses recognized by registered professional bodies such as The Law Society of Hong Kong, the Hong Kong Institute of Certified Public Accountants, and The Hong Kong Institute of Chartered Secretaries, etc., are recognised by the Company for this purpose. The Directors are also provided with materials from time to time to keep afresh of the latest legal and regulatory changes to enable them to discharge their duties.

During the year ended 31 December 2015 and up to the date of this Report, all the Directors, namely Mr. CHONG Tin Lung Benny, Mr. LAM Chi Yan, Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie\* and Mr. LEE Ben Tiong Leong (*appointed with effect from 27 February 2015*), had participated in appropriate continuous professional development activities by ways of attending trainings and/or reading materials relevant to the Company's businesses or to the Directors' duties and responsibilities.

## DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has also arranged appropriate insurance cover for our Directors in respect of legal actions taken against Directors and officers.

## BOARD COMMITTEES

To oversee different aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established the following Board Committees namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Terms of reference of each of these Committees are available on the Company's website at [www.autoitalia.com.hk](http://www.autoitalia.com.hk). All Committees are provided with sufficient resources to discharge their duties, and they are also authorised to obtain external legal or other independent professional advice if they consider it necessary to do so.

### Audit Committee

The members of the Audit Committee comprise Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie and Mr. LEE Ben Tiong Leong, all of whom are Independent Non-executive Directors. Mr. KONG Kai Chuen Frankie\* is the chairman of the Audit Committee. Mr. Kong, being an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants, has the appropriate professional qualifications and experience in the financial field. The terms of reference of the Audit Committee are reviewed annually, and was revised and uploaded on the website of Hong Kong Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) under the "Latest Listed Company Information" and the website of the Company at [www.autoitalia.com.hk](http://www.autoitalia.com.hk) on 22 March 2016. The terms of reference have included the duties set out in Code Provision C.3.3 (a) to (n) of the CG Code.

During the year, the Audit Committee conducted two formal meetings and discharged its responsibilities.

The principal duties of the Audit Committee include reviewing the financial reporting process, internal control and risk management systems of the Group and to provide advices and comments to the Board.

During the year of 2015, the Audit Committee had reviewed the audit issues raised by the external Auditor; considered and recommended to the Board for adoption of new accounting standards; reviewed and recommended to the Board for approval of the audit fee proposal for the Group for 2015; reviewed the audited accounts and final results announcement for the years 2014 and 2015; reviewed the interim report and the interim results announcement for the six months ended 30 June 2015; reviewed the effectiveness of internal control and risk management systems of the Group; reviewed and considered the report of the annual internal control and risk management reviews of the Group; reviewed the related party transactions and compliance of the relevant Listing Rules and accounting policies in relation thereto; and reviewed the terms of reference of the Audit Committee.



---

## **BOARD COMMITTEES** *(Continued)*

### **Remuneration Committee**

The members of the Remuneration Committee comprise Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie (formerly known as KONG To Yueng Frankie) and Mr. LEE Ben Tiong Leong, all of whom are Independent Non-executive Directors, and Mr. CHONG Tin Lung Benny, an Executive Director. Dr. SANTOS Antonio Maria was appointed as the chairman of the Remuneration Committee with effect from 27 February 2015. The terms of reference of the Remuneration Committee were adopted with reference to the CG Code, including the specific duties set out in Code Provision B.1.2 (a) to (h).

During the year, the Remuneration Committee had conducted one formal meeting. The Remuneration Committee has the delegated responsibility to determine the remuneration packages of individual Executive Directors and senior management and adopted a set of policy and guidelines to govern its administration in reviewing, considering and fixing the remuneration packages and benefits of Directors and senior management of the Group. During the year 2015, the Remuneration Committee had fixed the schedule of Independent Non-executive Directors' fee; and made recommendations to the Board in relation to the Director's fee of the new Independent Non-executive Director.

### **Nomination Committee**

Currently, the members of the Nomination Committee comprise Mr. CHONG Tin Lung Benny, one of the Executive Directors, Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie\* and Mr. LEE Ben Tiong Leong, all of whom are Independent Non-executive Directors. Mr. CHONG Tin Lung Benny is the chairman of the Nomination Committee. It is primarily responsible for making recommendations to the Board on appointment of directors regarding the qualifications and competency of the candidates. The terms of reference of the Nomination Committee are disclosed on the websites of Hong Kong Exchange and the Company, and have included the duties set out in Code Provision A.5.2 (a) to (d) of the CG Code.

During the year, the Nomination Committee had conducted one formal meeting.

### **Board Diversity Policy**

Pursuant to Code Provision A.5.6 of the CG Code, the Board has a board diversity policy in place since August 2013. The Company recognises and embraces the benefits of diversity of Board members.

While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

## BOARD AND COMMITTEES MEETINGS

The Board met four times in 2015. The attendances of individual Director at these Board meetings and Board Committees' meetings held in 2015 are set out in the table below:

Name of Directors	Number of Board meetings attended/held	Number of Audit Committee meetings attended/held	Number of Remuneration Committee meetings attended/held	Number of Nomination Committee meetings attended/held
<i>Executive Directors:</i>				
Mr. CHONG Tin Lung Benny	4/4	N/A	1/1	1/1
Mr. LAM Chi Yan	4/4	N/A	N/A	N/A
Mr. JACOBSEN William Keith <sup>(Note a)</sup>	3/4	N/A	N/A	N/A
<i>Independent Non-executive Directors:</i>				
Dr. SANTOS Antonio Maria	4/4	2/2	1/1	1/1
Mr. KONG Kai Chuen Frankie <sup>(Note b)</sup>	4/4	2/2	1/1	1/1
Mr. LEE Ben Tiong Leong <sup>(Note c)</sup>	3/3	2/2	1/1	1/1

Notes:

- Mr. JACOBSEN William Keith resigned with effect from 17 October 2015.
- Mr. KONG To Yueng Frankie changed his name to KONG Kai Chuen Frankie with effect from 3 March 2016.
- Mr. LEE Ben Tiong Leong was appointed with effect from 27 February 2015.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under Code Provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of the financial statements for each financial year, to ensure that these financial statements give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors are responsible for ensuring the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

## EXTERNAL AUDITOR

During the year ended 31 December 2015, Messrs. Deloitte Touche Tohmatsu was re-appointed as external Auditor. The statement of the Auditor about its reporting responsibilities on the financial statements of the Group is set out in the “**Independent Auditor’s Report**” on pages 35 to 36 of this Report.

During the year of 2015, the Auditor had performed audit and non-audit services and their remuneration in respect of audit and non-audit services, including interim review is HK\$1,500,000 and HK\$230,000 respectively.

## INTERNAL CONTROLS

The Board acknowledges its responsibility for the effectiveness of the Group’s internal control and risk management system, which is designed to provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud. The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The Group has established and implemented the segregation of duties and functions of the respective operational departments of the Group; monitored the strategic plan and performance; designed an effective accounting and information system; reviewed systems and procedures to identify, measure, manage and control risks including reputation, legal, credit, market and operational risks; handled inside information by setting out the procedures and policies; updated the internal control manual when there are changes to business environment or regulatory guidelines; and followed up with various departments to ensure timely implementation of the recommendations and report the status to the management periodically.

The Group is committed to maintaining and upholding good corporate governance practices and internal control system. The Board conducted a review of the internal control system of the Company and its subsidiaries for the year ended 31 December 2015, including financial, operational and compliance control, and risk management functions. The assessment was made by discussions with the management of the Company, its external auditors and the review performed by the audit committee. The Board believes that the existing internal control system is adequate and effective.

## COMMUNICATION WITH SHAREHOLDERS

### Effective Communication

The Company follows the practice that at the annual general meetings of the Company, a separate resolution is proposed in respect of each separate issue, including the re-election of Directors.

In every annual general meeting of the Company ("AGM"), the Chairman of the Board, the chairman of the Audit Committee, Directors and other senior management of the Company will be present to answer questions from the Shareholders.

The Company held one general meeting in 2015. The attendance of individual Director at the general meeting held in 2015 is set out in the table below:

Name of Directors	Number of general meetings attended/held
<i>Executive Directors:</i>	
Mr. CHONG Tin Lung Benny	1/1
Mr. LAM Chi Yan	1/1
Mr. JACOBSEN William Keith <i>(Note a)</i>	1/1
<i>Independent Non-executive Directors:</i>	
Dr. SANTOS Antonio Maria	1/1
Mr. KONG Kai Chuen Frankie <i>(Note b)</i>	1/1
Mr. LEE Ben Tiong Leong	1/1

*Notes:*

- a. Mr. JACOBSEN William Keith resigned with effect from 17 October 2015.
- b. Mr. KONG To Yueng Frankie changed his name to KONG Kai Chuen Frankie with effect from 3 March 2016.

Pursuant to Code Provision E.1.2 of the CG Code, the Company invited representatives of the Auditor to attend the AGM convened on 20 May 2015 to answer Shareholders' questions about the conduct of the audit, the preparation and content of the Auditor's report, the accounting policies and auditor independence.

---

## COMMUNICATION WITH SHAREHOLDERS *(Continued)*

### Shareholders' Right

How can Shareholders convene a special general meeting ("SGM") and what are the procedures for putting forward proposals at a general meeting?

Shareholders may make a requisition to the Board to convene a SGM of the Company in accordance with the provisions as set out in the Bye-laws and section 74 of the Companies Act 1981 of Bermuda (as amended) (the "Bermuda Companies Act"). Shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company have the right to submit a written requisition to the Board requiring a SGM to be called by the Board. The written requisition must state the purpose(s) of the meeting (including the resolutions to be considered at the meeting), and must be signed by the requisitionists and deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda for the attention of the Board and the Company Secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. If the requisition does not comply with the relevant requirements of the Bye-laws or the Bermuda Companies Act, the requisitionists will be advised of the same and accordingly, the SGM will not be convened as requested.

If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a SGM, the requisitionists or any of them representing more than one-half of the total voting rights of all of them may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of 3 months from the said date of deposit of the requisition. A meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board.

Sections 79 and 80 of the Bermuda Companies Act provides that on a requisition of certain Shareholder(s), the Company shall give notice to the Shareholders in respect of any resolution which is intended to be moved at an annual general meeting of the Company and/or to circulate a statement in respect of any proposed resolution or business to be considered at a general meeting of the Company.

Under section 79 of the Bermuda Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:

- (a) to give to the Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;
- (b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.



## COMMUNICATION WITH SHAREHOLDERS *(Continued)*

### Shareholders' Right

The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:

- (i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or
- (ii) not less than one hundred Shareholders.

Under section 80 of the Bermuda Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned above unless:

- (a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:
  - (i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and
  - (ii) in the case of any other requisition, not less than one week before the meeting; and
- (b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect to the requisition (i.e. the giving of notice of resolution and/or circulation of statement).

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an annual general meeting is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the above-mentioned time shall be deemed to have been properly deposited for the purposes thereof.

### Procedures for directing Shareholders' enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to Tricor Standard Limited, the Company's Share Registrar and Transfer Office in Hong Kong. Other Shareholders' enquiries can be directed to the Company Secretary from time to time. Enquiring Shareholder has to provide evidence to the Company to identify its identity. Please refer to the section headed "**Corporate Information**" of this Report for the contact details.

### Constitutional Documents

There was no change to the Company's constitutional documents during the year of 2015. A copy of the latest version of the Memorandum of Association and Bye-laws is available on the websites of Hong Kong Exchange and the Company.

## **COMMUNICATION WITH SHAREHOLDERS** *(Continued)*

### **Voting by Poll**

The Company informed Shareholders of the procedures for demanding a poll by incorporating them in any circular for an AGM and SGMs, if any. In addition, in every general meeting, the chairman of the meeting provided an explanation of the detailed procedures for conducting a poll at the meeting. The procedures for conducting a poll were incorporated in the circular for the AGM.

### **COMPANY SECRETARY**

Mr. HON Ping Cho Terence was appointed as the Company Secretary of the Company with effect from 30 December 2013 and had tendered his resignation, which was disclosed in the announcement in relation to, among others, Change of Company Secretary and Authorised Representative dated 22 March 2016, with effect from 1 April 2016. During the year ended 31 December 2015, he had taken no less than 15 hours of relevant professional training.

Mr. WONG Yat Tung has been appointed as the Company Secretary of the Company which was mentioned on the aforesaid announcement, with effect from 1 April 2016. He is a manager of SW Corporate Services Group Limited and has more than eight years of extensive experience in providing company secretarial services to private and listed companies. His contact person at the Company is Mr. CHONG Tin Lung Benny, Executive Director, Executive Chairman and CEO of the Company.

All Directors has access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations, are followed.

---

## INDEPENDENT AUDITOR'S REPORT

# Deloitte. 德勤

### TO THE MEMBERS OF AUTO ITALIA HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Auto Italia Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 111, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

---

## Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

22 March 2016



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Revenue	8	<b>973,140</b>	1,095,363
Cost of sales		<b>(720,329)</b>	(847,583)
Gross profit		<b>252,811</b>	247,780
Other income	9	<b>22,710</b>	39,329
Other gains and losses	10	<b>(8,318)</b>	(2,579)
Selling and distribution costs		<b>(143,081)</b>	(139,415)
Administrative expenses		<b>(83,725)</b>	(95,287)
Finance costs	11	<b>(3,038)</b>	(5,881)
Profit before taxation		<b>37,359</b>	43,947
Taxation	12	<b>(9,603)</b>	(7,642)
Profit for the year	13	<b>27,756</b>	36,305
Profit for the year attributable to:			
Owners of the Company		<b>27,756</b>	27,576
Non-controlling interests		<b>-</b>	8,729
		<b>27,756</b>	36,305
Earnings per share attributable to the owners of the Company	15		
– Basic		<b>HK0.53 cent</b>	HK0.71 cent
– Diluted		<b>HK0.53 cent</b>	N/A

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
<b>Profit for the year</b>	<b>27,756</b>	36,305
<b>Other comprehensive income:</b>		
Item that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	<b>835</b>	269
<b>Other comprehensive income for the year</b>	<b>835</b>	269
<b>Total comprehensive income for the year</b>	<b>28,591</b>	36,574
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>28,591</b>	27,774
Non-controlling interests	–	8,800
	<b>28,591</b>	36,574

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	108,403	97,803
Goodwill	18	2,480	2,480
Rental deposits		14,094	10,997
		<b>124,977</b>	111,280
<b>Current assets</b>			
Inventories	19	200,457	138,570
Tax recoverables		1,956	1,072
Trade and other receivables	20	78,450	104,978
Loan receivables	21	76,000	79,270
Investments in convertible bonds	17	26,772	–
Pledged bank deposits	22	59,655	58,896
Bank balances and cash	22	207,611	269,915
		<b>650,901</b>	652,701
<b>Current liabilities</b>			
Trade and other payables	23	252,943	308,497
Tax payable		7,695	3,581
Bank and other borrowings	24	105,532	84,288
Obligations under finance leases	25	74	149
		<b>366,244</b>	396,515
<b>Net current assets</b>		<b>284,657</b>	256,186
<b>Total assets less current liabilities</b>		<b>409,634</b>	367,466

## Consolidated Statement of Financial Position

At 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
<b>Capital and reserves</b>			
Share capital	27	104,079	103,784
Reserves		298,221	255,312
<b>Total equity</b>		<b>402,300</b>	359,096
<b>Non-current liabilities</b>			
Bank and other borrowings	24	6,610	8,296
Obligations under finance leases	25	–	74
Deferred taxation	26	724	–
		<b>7,334</b>	8,370
		<b>409,634</b>	367,466

The consolidated financial statements on pages 35 to 111 were approved and authorised for issue by the board of directors on 22 March 2016 and are signed on its behalf by:

**DIRECTOR**  
**CHONG Tin Lung Benny**

**DIRECTOR**  
**LAM Chi Yan**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company									Non-controlling interests	Total
	Share capital	Share premium	Capital redemption reserve	Share option reserve	Revaluation reserve	Translation reserve	Other reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	59,189	115,678	2,151	-	15,620	(126)	157,034	(200,680)	148,866	8,718	157,584
Profit for the year	-	-	-	-	-	-	-	27,576	27,576	8,729	36,305
Other comprehensive income for the year	-	-	-	-	-	198	-	-	198	71	269
Total comprehensive income for the year	-	-	-	-	-	198	-	27,576	27,774	8,800	36,574
Recognition of equity settled											
share-based payments	-	-	-	2,519	-	-	-	-	2,519	-	2,519
Issue of new shares	44,595	130,337	-	-	-	-	-	-	174,932	-	174,932
Transaction cost attributable to issue of new shares	-	(4,392)	-	-	-	-	-	-	(4,392)	-	(4,392)
Acquisition of additional interest in a non-wholly owned subsidiary (note 36)	-	-	-	-	-	-	9,397	-	9,397	(17,518)	(8,121)
At 31 December 2014	103,784	241,623	2,151	2,519	15,620	72	166,431	(173,104)	359,096	-	359,096
Profit for the year	-	-	-	-	-	-	-	27,756	27,756	-	27,756
Other comprehensive income for the year	-	-	-	-	-	835	-	-	835	-	835
Total comprehensive income for the year	-	-	-	-	-	835	-	27,756	28,591	-	28,591
Recognition of equity settled											
share-based payments	-	-	-	11,895	-	-	-	-	11,895	-	11,895
Issue of new shares upon exercise of share options	295	3,757	-	(1,334)	-	-	-	-	2,718	-	2,718
Transfer upon lapse of share options	-	-	-	(14)	-	-	-	14	-	-	-
At 31 December 2015	104,079	245,380	2,151	13,066	15,620	907	166,431	(145,334)	402,300	-	402,300



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	37,359	43,947
Adjustments for:		
Impairment losses on trade and other receivables, net	801	161
Reversal of allowance for inventories	(2,941)	(14,014)
Depreciation of property, plant and equipment	21,910	15,198
Dividend income	(8,473)	(3,695)
Interest income	(661)	(1,639)
Interest expenses	3,038	5,881
Effective interest income from investments in convertible bonds	(783)	–
Gain on fair value change of derivative component of investments in convertible bonds	(818)	–
Loss on disposal of property, plant and equipment	1,166	817
Share-based payments	11,895	2,519
<b>Operating cash flows before movements in working capital</b>	<b>62,493</b>	49,175
(Increase) decrease in inventories	(58,946)	81,495
Decrease (increase) in trade and other receivables	22,630	(66,910)
Decrease (increase) in loan receivables	3,270	(79,270)
Decrease in trade and other payables	(55,554)	(17,757)
<b>Net cash used in operations</b>	<b>(26,107)</b>	(33,267)
Income tax paid	(5,640)	(3,426)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(31,747)</b>	(36,693)
<b>INVESTING ACTIVITIES</b>		
Dividend received	8,473	3,695
Interest received	661	1,639
Purchase of property, plant and equipment	(37,224)	(29,682)
Proceeds from disposal of property, plant and equipment	3,505	20,178
Placement of pledged bank deposits	(16,354)	(19,852)
Withdrawal of pledged bank deposits	16,981	34,227
Subscription of convertible bonds	(25,000)	–
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(48,958)</b>	10,205

Consolidated Statement of Cash Flows  
For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
<b>FINANCING ACTIVITIES</b>		
Interest paid	(3,027)	(5,870)
Bank and other borrowings raised	516,023	556,740
Repayment of bank and other borrowings	(496,465)	(660,019)
Repayment under finance leases	(149)	(149)
Interest paid on finance leases	(11)	(11)
Proceeds on issue of new shares	-	174,932
Transaction cost attributable to issue of new shares	-	(4,392)
Proceeds from exercise of share options	2,718	-
Repayment to a related party	-	(26,000)
Acquisition of additional interest in a non-wholly owned subsidiary	-	(8,121)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>19,089</b>	<b>27,110</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(61,616)</b>	<b>622</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>269,915</b>	<b>269,387</b>
Effect of exchange rate changes	(688)	(94)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR,</b> represented by bank balances and cash	<b>207,611</b>	<b>269,915</b>
Note:		
Interest received included in operating activities	11,925	5,944

---

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the import, marketing and distribution, and provision of after-sales service of Italian "Ferrari" and "Maserati" branded cars in Hong Kong and Macau, the provision of pre-delivery inspection service in Shanghai, the People's Republic of China ("PRC") and Hong Kong as well as provision of financing and property investment.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 - 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 - 2013 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

### New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 15	Revenue from contracts with customers <sup>2</sup>
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations <sup>1</sup>
Amendments to HKAS 1	Disclosure initiative <sup>1</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation <sup>1</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception <sup>1</sup>
Amendments to HKAS 27	Equity method in separate financial statements <sup>1</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

### HKFRS 9 “Financial instruments”

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debt instruments.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

### Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.



---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

The directors of the Company anticipate that the application of HKFRS 9 in the future may have impact on amounts reported in respect of the Group’s financial assets based on the financial assets and liabilities as at 31 December 2015. Such application may also result in provision of 12 month and lifetime expected credit losses on financial assets. Regarding the Group’s financial assets, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

### **HKFRS 15 “Revenue from contracts with customers”**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company do not anticipate that the application of the other new and revised HKFRSs will have a material effect on the amounts recognised in the Group’s consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for leasing transactions that within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

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

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below.

#### **Basis of consolidation**

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

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

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

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

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

### **3. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **Basis of consolidation** *(Continued)*

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance from 1 January 2010.

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

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

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Subsidies income from suppliers are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that subsidies income will be received.

The Group's policy for recognition of revenue from operating leases is described in the accounting policy below.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Property, plant and equipment

Property, plant and equipment including leasehold land and building held for administrative purposes are stated in the consolidated financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of investment property becomes an owner-occupied property because its use has changed as evidenced by commencement of owner-occupation. When an investment property carried at fair value is transferred to owner-property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

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

#### Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the acquisition.



---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Goodwill** *(Continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out basis or specific identification method as appropriate. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### **Foreign currencies**

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Taxation

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

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

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

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

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Taxation** *(Continued)*

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

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

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

Current and deferred tax are recognised in profit or loss.

#### **Borrowing costs**

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

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### ***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Leasing *(Continued)*

##### ***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy above).

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

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

##### ***Leasehold land and building***

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Retirement benefits scheme**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

#### **Equity-settled share-based payment transactions**

##### ***Share options granted to employees***

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 29 to the consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

##### ***Share options granted to consultants***

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above)**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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



---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### *Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL, of which interest income is included in net gains or loss.

---

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial assets *(Continued)*

##### **Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 6.

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Financial assets** *(Continued)*

##### ***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

##### ***Investments in convertible bonds***

The component parts of the convertible instruments are classified separately as debt component and conversion option derivative.

At the date of acquisition of investments in convertible bonds, the fair value of the debt and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible instruments is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

##### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

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

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial assets *(Continued)*

##### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables and loans receivables, assets that are assessed not to be impaired individually, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loan receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial liabilities and equity instruments

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

##### *Equity instruments*

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

##### *Financial liabilities*

Financial liabilities including trade and other payables as well as bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

##### *Effective interest method*

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

Interest expense is recognised on an effective interest basis.

#### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

#### **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Key sources of estimation uncertainty**

The following are 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 within the next financial year.

##### **Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the periods. The estimated useful life reflects the estimate of the directors of the Company for the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment while the estimated residual value reflects the estimate of the directors of the Company for the value that the Group expects to receive upon disposal at the time the property, plant and equipment is no longer in use. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. At 31 December 2015, the carrying value of property, plant and equipment is HK\$108,403,000 (2014: HK\$97,803,000).

---

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Allowance for inventories

The management of the Group reviews an aging analysis at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The management estimates the net realisable value for such finished goods based primarily on the latest selling and purchase prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for slowing-moving inventory. If the market condition was to deteriorate, resulting in a lower net realisable value for such finished goods, additional allowances may be required. At 31 December 2015, the carrying amount of inventories is HK\$200,457,000 (2014: HK\$138,570,000), whereas the reversal of allowance for inventories recognised during the year ended 31 December 2015 is HK\$2,941,000 (2014: HK\$14,014,000).

### Allowances for bad and doubtful debts

When there is objective evidence that trade and other receivables and loans receivables may be impaired, the Group estimates the future cash flows of those balances. The amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e. the effective interest rate computed on initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31 December 2015, the carrying amount of trade and other receivables and loan receivables were HK\$78,450,000 (2014: HK\$104,978,000) and HK\$76,000,000 (2014: HK\$79,270,000) respectively, whereas allowance for bad and doubtful debts recognised on trade and other receivables and loan receivables during the years ended 31 December 2015 is HK\$801,000 (2014: HK\$161,000) and Nil (2014: Nil) respectively.



## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes obligations under finance leases and bank and other borrowings, net with cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital.

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2015 HK\$'000	2014 HK\$'000
<b>Financial assets</b>		
Financial assets at FVTPL – derivative	5,282	–
Loans and receivables (including cash and cash equivalents)	418,129	455,529
<b>Financial liabilities</b>		
Amortised cost	175,410	196,634

### Financial risk management objectives and policies

The Group's financial instruments include investments in convertible bonds, trade and other receivables, loan receivables, pledged bank deposits, bank balances, trade and other payables, obligations under finance leases and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Market risk

##### Currency risk

The group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies except for certain inter-company balances and bank deposits/balances denominated in foreign currencies.

The Group currently does not have a foreign currency hedging policy. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's major foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
United States Dollars ("USD")	<b>63,714</b>	38,461	<b>12,040</b>	14,924
Renminbi ("RMB")	<b>34,610</b>	36,410	–	–
Euro ("EUR")	<b>2,107</b>	1,345	<b>1,966</b>	5,281

##### Sensitivity analysis

As HK\$ is pledged to USD, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the HK\$/USD exchange rates. As a result, the directors consider that the sensitivity of the Group's exposure towards the change in foreign exchange rates between HK\$/USD is minimal.

The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in HK\$ against RMB and EUR. 5% (2014: 5%) represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period has been determined based on the change taking place at the beginning of the financial period and held constant throughout the reporting period. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period include only outstanding foreign currency denominated monetary items and inter-company balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Market risk *(Continued)*

#### Currency risk *(Continued)*

A positive number below indicates a decrease in post-tax profit for the year where HK\$ strengthen 5% (2014: 5%) against RMB and EUR. For a 5% (2014: 5%) weakening of HK\$ against RMB and EUR, there would be an equal and opposite impact on the post-tax profit for the year as set out below:

	RMB impact		EUR impact	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease (increase) in post-tax profit	<b>3,037</b>	<b>6,798</b>	<b>6</b>	<b>(164)</b>

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the reporting period.

#### Interest rate risk

The Group's fair value interest rate risk relates primarily to the debt component of investments in convertible bonds, loan receivables, pledged bank deposits and obligations under finance leases. The Group's cash flow interest rate risk relates primarily to variable-rate bank balances, bank and other borrowings (see note 22 for details of the bank balances and note 24 for details of bank and other borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

#### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank balances and bank borrowings, the analysis is prepared assuming the bank balances and bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points increase or decrease in variable-rate bank balances represents management's assessment of the reasonably possible change in interest rates. If interest rate increases/decreases by the aforesaid basis point, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2015 would increase/decrease by approximately HK\$267,000 (2014: HK\$269,000). A 50 basis points increase or decrease in variable-rate bank borrowings represents management's assessment of the reasonably possible change in interest rates. If interest rate decreases/increases by the aforesaid basis point, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2015 would increase/decrease by approximately HK\$468,000 (2014: HK\$387,000).

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Market risk *(Continued)*

#### Interest rate risk *(Continued)*

#### Sensitivity analysis *(Continued)*

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the period end exposure does not reflect the exposure during the reporting period.

#### **Price risk on conversion option embedded in convertible bonds held by the Group**

The Group is required to estimate the fair value of the conversion option embedded in the convertible bonds held by the Group at the end of the reporting period with changes in fair value to be recognised in profit or loss as long as the convertible bonds are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in share price and its volatility of the share price of a set of comparable companies with similar business nature with the convertible bonds issuer.

The sensitivity analyses below have been determined based on the exposure to the change of share price and its volatility of share price of a set of comparable companies with similar business nature with the convertible bonds issuer at the reporting date.

If the share price of the convertible bonds issuer had been 5% higher/lower and all other variables were held constant, the Group's post-tax profit for the year would be increased/decreased by HK\$934,000 (2014: Nil), as a result of changes in fair value of conversion option embedded in the convertible bonds held by the Group.

If the volatility of share price of a set of comparable companies with similar business nature with the convertible bonds issuer had been 5% higher/lower and all other variables were held constant, the Group's post-tax profit for the year would be increased/decreased by HK\$504,000 (2014: Nil), as a result of changes in fair value of conversion option embedded in the convertible bonds held by the Group.

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion options embedded in the convertible bonds involves multiple variables and certain variables are interdependent.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### ***Credit risk***

The Group's credit risk is primarily attributable to trade and other receivables, investments in convertible bonds, loan receivables, and bank balances and pledged bank deposits for year ended 31 December 2015 and 2014.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade and other receivables consist of a large number of customers spread over diverse geographical areas, thus the Group does not have significant concentration on credit risk.

Bank balances and pledged bank deposits are placed in various banks and the Group has limited exposure to any single financial institution. The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The investments in convertible bonds as at 31 December 2015 expose the Group to concentration of credit risk. At the end of the reporting period, the Group assesses the financial position and performance of the issuer of the convertible bonds of carrying amount HK\$26,772,000 and in view of sufficient net asset and significant bank balance and cash of the issuer, the management consider the default risk on the investments in convertible bonds is not significant.

As at 31 December 2015, the Group had significant concentration of credit risk on loan receivables. In order to minimise credit risk, the management had delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviewed the recoverable amount of each loan receivable at the end of the reporting period to ensure that adequate impairment losses was recognised for irrecoverable debts. The management closely monitored the subsequent settlement of the individual loan and assessed impairment with reference to fair value of the collateralised listed securities in Hong Kong. Also, the management might request for highly liquid collaterals in order to minimise the exposure of credit risk. In this regard, the directors considered that the Group's credit risk was significantly reduced.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Company monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from contracted interest rate at the end of the reporting period.

	Weighted average interest rate %	Less than 1 year or on demand HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2015</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	-	63,194	-	-	63,194	63,194
Bank and other borrowings	3.83	106,467	6,848	-	113,315	112,142
Obligations under finance leases	1.86	80	-	-	80	74
		169,741	6,848	-	176,589	175,410
<b>As at 31 December 2014</b>						
<b>Non-derivative financial liabilities</b>						
Trade and other payables	-	103,827	-	-	103,827	103,827
Bank and other borrowings	4.11	84,460	7,305	1,368	93,133	92,584
Obligations under finance leases	1.86	160	80	-	240	223
		188,447	7,385	1,368	197,200	196,634

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### *Liquidity risk (Continued)*

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

As at 31 December 2015, the aggregate undiscounted principal amount of bank and other borrowings with repayment on demand clause amounting to HK\$103,846,000 (2014: HK\$82,634,000) are included in "Less than 1 year or on demand" time band in the above maturity analysis. Taking into account the Group's financial position, the management of the Group does not believe that it is probable that the banks or financial institutions will exercise their discretionary rights to demand immediate repayment. The management of the Group believes that such bank and other borrowings will be paid in accordance with the scheduled repayment date set out in the loan agreements as below.

	Weighted average interest rate %	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at the end of the reporting period HK\$'000
<b>Bank and other borrowings</b>						
As at 31 December 2015	3.77	104,641	-	-	104,641	103,846
As at 31 December 2014	3.93	81,519	2,650	-	84,169	82,634



Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### *Fair value of the Group's financial assets that are measured at fair value on a recurring basis*

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (level 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	Fair value as at 31 December 2015	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Conversion options embedded in CB (as defined in note 17) classified as financial asset at FVTPL in the consolidated statement of financial position	Assets - HK\$5,282,000	Level 3	Binominal model  The fair value is estimated based on risk free rate for the life of the option and share price (from observable market data), expected volatility of the share price of a set of comparable companies with similar business nature with New Sports Group (as defined in note 17), expected dividend yield on the shares and exercise price.	Expected volatility of the share price of a set of comparable companies with similar business nature with New Sports Group, determined by reference to the historical share price of those companies.	The higher the volatility, the higher the fair value. (Note)

Note: A slight increase in the share price of New Sports Group and/or the expected volatility of the share price of a set of comparable companies with similar business nature with New Sports Group used in valuation would result in significant increase in the fair value measurement of the conversion options embedded in investments in convertible bonds. Details as set out in the aforesaid price risk on convertible option embedded in convertible bonds held by the Group.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### *Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)*

There is no transfer between different levels of the fair value hierarchy for the year ended 31 December 2015.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

#### *Reconciliation of Level 3 fair value measurements of derivative financial instruments included in investments in convertible bonds*

	HK\$'000
<b>At 1 January 2015</b>	–
Fair value recognised upon acquisition	6,734
Change in fair value loss in profit or loss (Note)	(1,452)
<b>At 31 December 2015</b>	<b>5,282</b>

Note: All the loss from change in fair value recognised in profit or loss relates to the conversion options embedded in CBs (as defined in note 17) held at the end of the reporting period which is included in "other gains and losses".

---

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 7. SEGMENT INFORMATION

Information reported to the chief operating decision maker ("CODM"), being the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance, focuses on the types of goods or services provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The Group has three operating segments under HKFRS 8 which are as follows:

- (i) Cars – Trading of cars and related accessories and provision of car repairing services;
- (ii) Financial investments and services – Investments in securities, provision for financing and corporate finance services; and
- (iii) Other – Property investment.

Segment profit represents the profit earned by each segment without allocation of interest income from bank deposits/bank balances, certain unallocated corporate expenses and finance costs. This is the measure reported to CODM for the purpose of resource allocation and assessment of segment performance. The accounting policies of this segment are the same as the Group's accounting policies described in note 3.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 7. SEGMENT INFORMATION *(Continued)*

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

*For the year ended 31 December 2015*

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Group's revenue	955,615	17,525	–	973,140
<b>SEGMENT RESULTS</b>				
Segment profit	39,341	17,851	–	57,192
Interest income				661
Unallocated corporate expenses				(17,456)
Finance costs				(3,038)
Profit before taxation				37,359

*For the year ended 31 December 2014*

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Group's revenue	1,073,374	20,119	1,870	1,095,363
<b>SEGMENT RESULTS</b>				
Segment profit	35,009	19,194	1,777	55,980
Interest income				1,639
Unallocated corporate expenses				(7,791)
Finance costs				(5,881)
Profit before taxation				43,947

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 7. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities

At 31 December 2015

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	360,185	103,197	-	463,382
Bank balances and cash				207,611
Pledged bank deposits				59,655
Tax recoverable				1,956
Unallocated corporate assets				43,274
Consolidated assets				775,878
<b>Liabilities</b>				
Segment liabilities	247,808	333	-	248,141
Bank and other borrowings				112,142
Deferred taxation				724
Tax payable				7,695
Unallocated corporate liabilities				4,876
Consolidated liabilities				373,578

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 7. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities *(Continued)*

At 31 December 2014

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	300,703	86,870	–	387,573
Bank balances and cash				269,915
Pledged bank deposits				58,896
Tax recoverable				1,072
Unallocated corporate assets				46,525
Consolidated assets				763,981
<b>Liabilities</b>				
Segment liabilities	304,086	–	–	304,086
Bank and other borrowings				92,584
Tax payable				3,581
Unallocated corporate liabilities				4,634
Consolidated liabilities				404,885

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 7. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities *(Continued)*

For the purpose of monitoring segment performance and allocating resource between segment:

- all assets are allocated to operating segment other than corporate assets, tax recoverable, bank balances and cash and pledged bank deposits;
- all liabilities are allocated to operating segment other than corporate liabilities, tax payable, deferred taxation and bank and other borrowings.

### Other segment information

*For the year ended 31 December 2015*

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Amounts included in the measure of segment result or segment assets</b>					
Addition of property, plant and equipment	37,224	-	-	-	37,224
Depreciation of property, plant and equipment	(20,285)	-	-	(1,625)	(21,910)
Gain (loss) on disposal of property, plant and equipment	8	-	-	(1,174)	(1,166)
Impairment losses on trade and other receivables, net	(801)	-	-	-	(801)
Reversal of allowance for inventories - Hong Kong	2,941	-	-	-	2,941

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 7. SEGMENT INFORMATION *(Continued)*

### Other segment information *(Continued)*

*For the year ended 31 December 2014*

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Amounts included in the measure of segment result or segment assets</b>					
Addition of property, plant and equipment	44,159	-	-	-	44,159
Depreciation of property, plant and equipment	(14,408)	-	(209)	(581)	(15,198)
(Loss) gain on disposal of property, plant and equipment	(814)	-	(6)	3	(817)
Impairment losses on trade and other receivables, net	(161)	-	-	-	(161)
Reversal of allowance (allowance) for inventories					
- PRC	23,653	-	-	-	23,653
- Hong Kong	(9,639)	-	-	-	(9,639)

### Information about major customers

No revenue from customers contributing over 10% of total revenue of the Group for both years.



Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 7. SEGMENT INFORMATION *(Continued)*

### Geographical information

The Group's operations are mainly located in Hong Kong, Mainland China and Macau. The following table provides an analysis of the Group's revenue by location of customers, irrespective of the origin of the goods/services:

	2015 HK\$'000	2014 HK\$'000
Hong Kong	869,971	874,884
Mainland China	103,169	220,479
	<b>973,140</b>	1,095,363

The following is an analysis of the carrying amount of non-current assets analysed by the geographical area in which the assets are located:

	2015 HK\$'000	2014 HK\$'000
Hong Kong	124,104	109,929
Mainland China	873	1,351
	<b>124,977</b>	111,280

## 8. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2015 HK\$'000	2014 HK\$'000
Sales of goods to customers, less returns and discounts	730,404	899,666
Maintenance service income	225,211	173,708
Financial service income	5,600	14,175
Interest income	11,925	5,944
Others	-	1,870
	<b>973,140</b>	1,095,363

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 9. OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Commission income	5,668	3,453
Interest income	661	1,639
Effective interest income from investments in convertible bonds (note 17)	783	–
Dividend income	8,473	3,695
Subsidies income from suppliers	–	20,190
Others	7,125	10,352
	<b>22,710</b>	<b>39,329</b>

## 10. OTHER GAINS AND LOSSES

	2015 HK\$'000	2014 HK\$'000
Impairment losses on trade and other receivables, net	(801)	(161)
Net foreign exchange losses	(7,169)	(1,601)
Loss on disposal of property, plant and equipment	(1,166)	(817)
Gain on fair value change of derivative component of investments in convertible bonds (note 17)	818	–
	<b>(8,318)</b>	<b>(2,579)</b>

## 11. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interests on bank and other borrowings	3,027	5,870
Interest on finance leases	11	11
	<b>3,038</b>	<b>5,881</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**12. TAXATION**

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Current tax		
Hong Kong	<b>4,475</b>	4,740
Other jurisdictions	<b>4,358</b>	2,616
	<b>8,833</b>	7,356
Underprovision in prior years		
Other jurisdictions	<b>46</b>	286
Deferred tax (note 26)		
Current year	<b>724</b>	–
	<b>9,603</b>	7,642

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the both years and the service income for the non-PRC subsidiary with permanent establishment in the PRC is subject to deemed profit tax rate of 20%.

The taxation for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>37,359</b>	43,947
Tax at the domestic income tax rate of 16.5% (Note)	<b>6,164</b>	7,251
Tax effect of expenses not deductible for tax purpose	<b>2,159</b>	2,487
Tax effect of income not taxable for tax purpose	<b>(2,411)</b>	(2,234)
Underprovision in respect of prior year	<b>46</b>	286
Tax effect of tax losses not recognised	<b>849</b>	2,109
Tax effect of deductible temporary differences not recognised	<b>(226)</b>	(3,255)
Deferred tax provided on undistributed earnings of PRC subsidiaries	<b>724</b>	–
Effect of different tax rates of subsidiaries	<b>2,298</b>	998
Taxation for the year	<b>9,603</b>	7,642

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 13. PROFIT FOR THE YEAR

	2015 HK\$'000	2014 HK\$'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	1,500	1,510
Depreciation of property, plant and equipment	21,910	15,198
Staff costs:		
Directors' emoluments	10,139	7,415
Salaries and allowances	67,099	74,816
Share-based payments	7,700	1,330
Retirement benefits scheme contributions	2,488	2,405
	<b>87,426</b>	85,966
Cost of inventories recognised as expense	716,119	847,583
Reversal of allowance for inventories (included in cost of inventories) (Note)	(2,941)	(14,014)
Operating lease payments in respect of rented properties	60,523	55,168

Note: The reversal allowance for the years ended 31 December 2015 and 2014 is resulted from the subsequent sale of the relevant inventories.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**14. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS**

The emoluments paid or payable to each of six (2014: six) directors and the chief executive, were as follows:

	Other emoluments					Total emoluments HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Share-based payments HK\$'000	Performance related incentive payments HK\$'000 (Note v)	Retirement benefits scheme contributions HK\$'000	
<b>2015</b>						
<b>Executive Directors</b>						
William Keith Jacobsen (Note i)	71	-	447	-	4	522
Chong Tin Lung Benny	-	2,016	2,655	694	18	5,383
Lam Chi Yan	-	1,905	957	747	18	3,627
<b>Independent Non-executive Directors ("INED"s)</b>						
Antonio Maria Santos	180	-	68	-	-	248
Kong To Yeung Frankie (Note iv)	180	-	68	-	-	248
Lee Tiong Leong Ben (Note ii)	151	-	-	-	-	151
	582	3,921	4,195	1,441	40	10,179

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 14. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

(Continued)

	Other emoluments					Total emoluments HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Share-based payments HK\$'000	Performance related incentive payments HK\$'000 (Note v)	Retirement benefits scheme contributions HK\$'000	
<b>2014</b>						
<b>Executive Directors</b>						
William Keith Jacobsen	90	-	229	-	5	324
Chong Tin Lung Benny	-	2,016	635	908	17	3,576
Lam Chi Yan	-	1,843	229	890	17	2,979
<b>"INED"s</b>						
Tan Boon Seng (Note iii)	119	-	-	-	-	119
Antonio Maria Santos	180	-	48	-	-	228
Kong To Yeung Frankie	180	-	48	-	-	228
	569	3,859	1,189	1,798	39	7,454

Mr. Chong Tin Lung, Benny, is also the Chief Executive of the Company. The executive directors' remuneration shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' remuneration shown above were mainly for their services as director of the Company.

Notes:

- (i) The director resigned on 17 October 2015.
- (ii) The director appointed on 27 February 2015.
- (iii) The director resigned on 29 August 2014.
- (iv) Kong To Yeung Frankie changed his name to Kong Kai Chuen Frankie with effect from 3 March 2016.
- (v) Performance related incentive payments were determined by the remuneration committee having regard to the performance of directors and the Group's operating result.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 14. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

*(Continued)*

Of the five individuals with the highest emoluments in the Group, two (2014: two) were Directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (2014: three) individuals were as follows:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>5,455</b>	6,809
Performance related incentive payments	<b>1,379</b>	4,361
Share-based payments	<b>2,394</b>	343
Retirement benefits scheme contributions	<b>45</b>	34
	<b>9,273</b>	11,547

Their emoluments were within the following bands:

	<b>2015</b>	2014
	<b>Number of</b>	Number of
	<b>employees</b>	employees
HK\$2,500,001 to HK\$3,000,000	<b>2</b>	2
HK\$3,000,001 to HK\$4,000,000	<b>1</b>	–
HK\$6,000,001 to HK\$6,500,000	<b>–</b>	1
	<b>3</b>	3

During the both years, no emoluments were paid by the Group to the five highest paid individuals (including directors, the chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors and the chief executive waived any emoluments during the both years.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Profit for the year attributable to owners of the Company and profit for the purpose of basic and diluted earnings per share	<b>27,756</b>	27,576
	<b>2015</b>	2014
	<b>Number of</b>	Number of
	<b>shares</b>	shares
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>5,191,504,949</b>	3,888,107,199
Effect of dilutive potential ordinary shares Share options	<b>78,339,718</b>	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b>5,269,844,667</b>	3,888,107,199

For the year ended 31 December 2014, the computation of diluted earnings per share does not assume the exercise of the share options granted since the exercise price of the share options outstanding was higher than average market price of the shares during the year.



Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK\$'000	Leasehold improvements HK\$'000	Machinery and tools HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1 January 2014	-	66,954	17,490	25,342	24,742	134,528
Exchange adjustments	-	(60)	(18)	(9)	(91)	(178)
Additions	-	30,485	579	1,278	11,817	44,159
Transfer from investment properties	44,700	-	-	-	-	44,700
Disposals/write-off	-	(10,228)	(2,994)	(2,156)	(27,641)	(43,019)
At 31 December 2014	44,700	87,151	15,057	24,455	8,827	180,190
Exchange adjustments	-	(116)	(38)	(24)	-	(178)
Additions	-	16,952	2,807	2,591	14,874	37,224
Disposals/write-off	-	(3,102)	-	(1,301)	(4,031)	(8,434)
At 31 December 2015	44,700	100,885	17,826	25,721	19,670	208,802
<b>Depreciation</b>						
At 1 January 2014	-	50,135	13,898	19,242	6,046	89,321
Exchange adjustments	-	(58)	(13)	(7)	(23)	(101)
Provided for the year	129	7,574	1,523	2,525	3,447	15,198
Eliminated on disposals/write-off	-	(10,002)	(2,552)	(1,799)	(7,678)	(22,031)
At 31 December 2014	129	47,649	12,856	19,961	1,792	82,387
Exchange adjustments	-	(103)	(19)	(13)	-	(135)
Provided for the year	1,118	13,095	1,286	2,225	4,186	21,910
Eliminated on disposals/write-off	-	(2,070)	-	(781)	(912)	(3,763)
At 31 December 2015	1,247	58,571	14,123	21,392	5,066	100,399
<b>Carrying values</b>						
At 31 December 2015	43,453	42,314	3,703	4,329	14,604	108,403
At 31 December 2014	44,571	39,502	2,201	4,494	7,035	97,803

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Shorter of lease terms or 2½%
Leasehold improvements	Shorter of lease terms or 20%
Machinery and tools	20% - 33⅓%
Furniture, fixtures and equipment	10% - 20%
Motor vehicles	20% - 25%

In December 2014, the properties was transferred from investment properties to property, plant and equipment in view of a change of use evidenced by commencement of owner-occupation. The fair value at the date of transfer approximated the carrying amount of investment properties at 31 December 2014 (note 28).

At 31 December 2015, property, plant and equipment with an aggregate carrying amount of HK\$43,453,000 (2014: HK\$44,571,000) are pledged to secure certain bank borrowings granted to the Group (note 32).

The carrying value of property, plant and equipment in respect of assets held under finance leases was HK\$62,000 (2014: HK\$211,000).

## 17. INVESTMENTS IN CONVERTIBLE BONDS

On 12 November 2015, the Company subscribed convertible bonds ("CBs") issued by New Sports Group Limited ("New Sports Group") in an aggregate principal amount of HK\$25,000,000 at a coupon rate of 5% per annum payable on the date of redemption with a maturity date of first anniversary of the issue date ("maturity date") which are denominated in HK\$. The CBs entitle the bondholders to convert them into shares of New Sports Group at any time commencing from the 3 months after the issue date and up to and including the 10th business day immediately preceding the maturity date, at a conversion price per share HK\$0.250, subject to anti-dilutive clauses.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 17. INVESTMENTS IN CONVERTIBLE BONDS *(Continued)*

The fair values of the CBs and its components on initial recognition are determined based on the valuation conducted by an independent professional valuer. On initial recognition, the fair value of the debt component of CBs is determined using the prevailing market interest rate of similar non-convertible debts and is carried at amortised cost subsequently. The effective interest rate is 27.828%. The fair value of the embedded conversion options of CBs as at the acquisition date and 31 December 2015 are calculated using the Binomial Model. The inputs into the model were as follows:

	<b>12 November 2015</b>	<b>31 December 2015</b>
Stock price	<b>HK\$0.240</b>	<b>HK\$0.226</b>
Exercise price	<b>HK\$0.250</b>	<b>HK\$0.250</b>
Discount rate	<b>27.828%</b>	<b>31.415%</b>
Risk-free rate (Note a)	<b>0.084%</b>	<b>0.084%</b>
Expected volatility (Note b)	<b>54.678%</b>	<b>54.206%</b>
Expected dividend yield (Note c)	<b>0.000%</b>	<b>0.000%</b>
Option life	<b>0.984 year</b>	<b>0.867 year</b>

Notes:

- (a) The rate was determined with reference to 1 year Hong Kong Dollar Hong Kong Sovereign Base Curve.
- (b) Based on the historical price volatility of a set of comparable companies with similar business nature with New Sports Group over the bond period.
- (c) Estimated by reference to the historical dividend payout of New Sports Group.

During the year ended 31 December 2015, the Group recognised fair value gain of the derivative component of investments in convertible bonds of HK\$818,000 in other gains or losses and effective interest income of HK\$783,000 in other income.

As at 31 December 2015, the carrying amounts of the debt and the derivative components of the investments in convertible bonds are HK\$21,490,000 and HK\$5,282,000 respectively.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 18. GOODWILL

	HK\$'000
<b>Cost</b>	
At 1 January 2014, 31 December 2014 and 2015	2,788
<b>Impairment</b>	
At 1 January 2014, 31 December 2014 and 2015	(308)
<b>Carrying values</b>	
At 31 December 2014 and 2015	2,480

The Group tests goodwill annually or more frequently if there are indications that goodwill may be impaired.

For the purposes of impairment testing, management compared the value in use of the relevant CGUs with the fair value less cost to sell of the CGUs and concluded that the value in use is higher than the fair value less cost to sell. Management of the Group considered sales of cars represents a single CGU.

The basis of the recoverable amount and its major underlying assumptions of CGU engaged in the sales of cars are summarised below:

At 31 December 2015 and 2014, the recoverable amount of the CGU engaged in the sales of cars has been determined based on a value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 5-year period at a discount rate of 17% (2014: 17%) was used. The cash flows of the CGU engaged in the sales of cars beyond the 5-year period of the financial budgets are extrapolated using a Nil (2014: Nil) growth rate. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the CGU engaged in the sales of cars and management's expectations for the market development. At the end of the reporting period, the recoverable amount of the CGU engaged in the sales of cars exceeded the carrying amount, therefore, no impairment loss is considered necessary. Management believes that any reasonably possible change in any of these assumptions would not cause the material change of the recoverable amounts of the sales of cars.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 19. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Finished goods	172,055	124,765
Spare parts	28,402	13,805
	<b>200,457</b>	138,570

Included in the above figures are finished goods of HK\$16,141,000 (2014: HK\$16,351,000) which have been pledged as security for bank borrowings (note 32).

## 20. TRADE AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade receivables	49,809	45,889
Less: Allowance for doubtful debts	(641)	(2,162)
	<b>49,168</b>	43,727
Purchase deposits	18,388	35,612
Utility and rental deposits	2,036	5,720
Prepayments and other receivables	8,858	19,919
	<b>78,450</b>	104,978

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**20. TRADE AND OTHER RECEIVABLES** *(Continued)***Trade receivables**

The Group allows its trade customers an average credit period of 90 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Within 30 days	<b>35,428</b>	29,040
31 to 60 days	<b>10,349</b>	7,647
61 to 90 days	<b>419</b>	4,652
91 days to 1 year	<b>2,878</b>	2,388
Over 1 year	<b>94</b>	–
	<b>49,168</b>	43,727

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit was initially granted up to the end of the reporting period.

At 31 December 2015, included in the Group's trade receivable balances are receivables with aggregate carrying amounts of HK\$2,972,000 (2014: HK\$2,388,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As these balances were either subsequently settled or these customers have good repayment history, the amounts are still considered recoverable. Accordingly, the directors believe that no impairment is required. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
91 days to 1 year	<b>2,878</b>	2,388
Over 1 year	<b>94</b>	–
	<b>2,972</b>	2,388

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full impairment on these receivables and considered that they are generally not recoverable.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 20. TRADE AND OTHER RECEIVABLES *(Continued)*

### Movement in the allowance for doubtful debts

#### *Trade receivables*

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>2,162</b>	2,001
Net impairment losses recognised in profit or loss	<b>801</b>	161
Amounts written off as uncollectible	<b>(2,322)</b>	-
At 31 December	<b>641</b>	2,162

The Group's trade and other receivables denominated in foreign currencies of the group entities are as follows:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
EUR	<b>777</b>	1,323

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**21. LOAN RECEIVABLES**

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Fixed-rate loans	<b>76,000</b>	79,270

The outstanding loan receivables are due from independent third parties and carry on interest rate of 8% per annum (2014: ranged from 15% to 24% per annum). The loans amounts of HK\$38,000,000 and HK\$38,000,000 (2014: HK\$40,000,000 and HK\$39,270,000) will be repaid in November 2016 and December 2016 (2014: March 2015 and November 2015) respectively. As at 31 December 2015, the balances were secured by listed securities in Hong Kong with fair values of HK\$61,600,000 and HK\$61,600,000 (2014: HK\$143,632,000 and HK\$168,300,000) respectively.

The Group has a policy for allowance of doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on directors' judgement, including the current creditworthiness of each debtor and the collaterals.

In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date credit was initially granted up to the end of the reporting period and the fair value of the securities pledged by the borrowers. The balances are neither past due nor impaired at the end of the reporting period for which the Group believes that the amounts are considered recoverable as the creditworthiness is satisfactory. Accordingly, the directors believe that there is no credit provision required.

**22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH**

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry variable-rate interest at market rates which range from 0.06% to 0.35% per annum (2014: 0.06% to 1.2% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$59,655,000 (2014: HK\$58,896,000) have been pledged to secure short-term bank loans and undrawn short-term facilities and are therefore classified as current assets (note 32). The pledged bank deposits carry fixed interest rate of 0.01% to 1.50% per annum (2014: 0.01% to 1.50% per annum).



Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH *(Continued)*

The Group's pledged bank deposits and bank balances and cash denominated in foreign currencies of the relevant group entities are as follows:

	2015 HK\$'000	2014 HK\$'000
USD	63,714	38,461
RMB	34,610	36,410
EUR	1,330	22

## 23. TRADE AND OTHER PAYABLES

Trade and other payables comprise amounts outstanding for trade purposes and daily operating costs. The average credit period on purchase of goods is 30 - 90 days. The following is an aged analysis of trade and bills payables presented based on invoice date at the end of the reporting period.

	2015 HK\$'000	2014 HK\$'000
Within 30 days	14,431	27,397
31 to 60 days	5,225	2,198
61 to 90 days	120	835
91 days to 1 year	949	-
Over 1 year	786	501
Trade and bills payables	21,511	30,931
Deposits received from customers	171,953	186,485
Advance payments from customers	8,040	31,406
Accrued charges	17,795	18,185
Other payables	33,644	41,490
	<b>252,943</b>	<b>308,497</b>

The Group's trade and other payables denominated in foreign currencies of the relevant group entities are as follows:

	2015 HK\$'000	2014 HK\$'000
USD	12,040	14,924
EUR	1,966	5,281

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**24. BANK AND OTHER BORROWINGS**

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Bank borrowings	<b>8,295</b>	17,169
Trust receipt loans	<b>87,858</b>	69,550
Other borrowings from a restricted licensed bank	<b>15,989</b>	5,865
	<b>112,142</b>	92,584
Secured	<b>112,142</b>	92,584
Carrying amount repayable:		
Within one year	<b>105,532</b>	84,288
More than one year, but not exceeding two years	<b>1,718</b>	1,686
More than two years, but not more than five years	<b>4,892</b>	5,250
More than five years	<b>–</b>	1,360
	<b>112,142</b>	92,584
Less: Amounts due within one year shown under current liabilities	<b>(105,532)</b>	(84,288)
Amounts shown under non-current liabilities	<b>6,610</b>	8,296

As at 31 December 2015, included in the carrying amount repayable within one year is a balance of HK\$103,846,000 (2014: HK\$82,634,000) that contains a repayable on demand clause.

As at 31 December 2015, the bank and other borrowings are variable-rate borrowings which bear average effective interest rate (which is also equal to contracted interest rate) at 3.83% per annum (2014: 4.11% per annum).

Details of the pledge of assets to secure the Group's banking facilities were set out in note 32.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**25. OBLIGATIONS UNDER FINANCE LEASES**

	Minimum lease payments		Present value of minimum lease payments	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Amounts payable under finance leases:				
Within one year	80	160	74	149
In the second to fifth year inclusive	-	80	-	74
	80	240	74	223
Less: Future finance charges	(6)	(17)	-	-
Present value of lease obligations	74	223	74	223
Less: Amount due for settlement within one year			(74)	(149)
Amount due for settlement after one year			-	74

The Group leased certain of its motor vehicles under finance leases with terms of 4 years (2014: 4 years). The average effective interest rates was 1.86% (2014: 1.86%) per annum during the lease term. Interest rates were fixed at the contract dates. The leases were on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under the finance leases are secured by the lessor's charge over the leased assets.

**26. DEFERRED TAXATION**

As at 31 December 2015, deferred tax liabilities of HK\$724,000 represented the temporary differences associated with undistributed earnings of the PRC subsidiaries of which the same amount was charged to profit or loss during the year.

At the end of the reporting period, the Group had unused estimated tax losses of HK\$60,468,000 (2014: HK\$71,160,000) available for offset against future profits which is subject to agreement with the relevant tax authorities. No deferred tax assets has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit streams. Included in unrecognised tax losses are loss of HK\$27,933,000 (2014: HK\$43,050,000) which will be expired in year 2020 (2014: year 2019). The other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK\$24,724,000 (2014: HK\$26,093,000) mainly relating to accelerated accounting depreciation and allowance for inventories. No deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 27. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.02 each:		
Authorised:		
At 1 January 2014, 31 December 2014 and 2015	17,500,000,000	350,000
Issued and fully paid:		
At 1 January 2014	2,959,452,260	59,189
Issue of shares under placement (Note i)	500,000,000	10,000
Issue of shares under open offer (Note ii)	1,729,726,130	34,595
At 31 December 2014	5,189,178,390	103,784
Exercise of share options (Note iii)	14,772,800	295
At 31 December 2015	5,203,951,190	104,079

Notes:

- (i) Save as disclosed in the announcement dated 20 March 2014, a total of 500,000,000 ordinary shares of HK\$0.125 each were issued on 20 March 2014 through placement to various placees, who and whose ultimate beneficial owners were independent and not connected to the Group. The gross proceeds of HK\$62,500,000 were used as general working capital of the Group.
- (ii) On 10 September 2014, the Company completed an open offer to the existing shareholders of 1,729,726,130 shares at a subscription price of HK\$0.065 per new share on the basis of one new share for every two existing shares.
- (iii) During the year ended 31 December 2015, the Company issued and allotted a total of 14,772,800 shares of HK\$0.02 each in the Company at exercise price of HK\$0.184 each to certain options holders who exercised their share options.

All the shares issued rank pari passu with the existing shares in all respects.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 28. INVESTMENT PROPERTIES

	HK\$'000
At 1 January 2014	44,700
Transfer to property, plant and equipment	(44,700)
At 31 December 2014	–

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes were measured using the fair value model and were classified and accounted for as investment properties. The above investment properties as at 31 December 2014 comprised industrial buildings and carparks located in Hong Kong, held under medium-term leases. The fair value of the investment properties at the date of transfer and as at 31 December 2014 was under Level 3 of fair value hierarchy and based on the directors' valuation taking into account the recent transaction price and adjusted for the relevant circumstances. The key input was the adjustment to the recent transaction price of 8.6%. A decrease in this adjustment would result in an increase in fair value measurement of the investment properties and vice versa.

In December 2014, the above investment properties was transferred to property, plant and equipment in view of a change of use evidenced by commencement of owner-occupation.

## 29. SHARE OPTION SCHEME

### 2012 Scheme

A share option scheme (the "2012 Scheme") was adopted pursuant to a resolution passed by the shareholders of the Company on 28 May 2012. The purpose of the 2012 Scheme is to provide incentives or rewards to the participants for their contribution to the Group and enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any companies in which the Group holds any equity interest. The 2012 Scheme will expire on the 10th anniversary of the date of adoption. Under the 2012 Scheme, the Board may at their discretion grant options to the following participants of the Company, its subsidiaries and any company in which the Group holds any equity interest, to subscribe for shares in the Company:

- (1) eligible employees, including Directors; or
- (2) suppliers or customers; or

---

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 29. SHARE OPTION SCHEME *(Continued)*

### 2012 Scheme *(Continued)*

- (3) any person or entity that provides research, development or other technological support; or
- (4) shareholders; or
- (5) employees, partners or directors of any business partners, joint venture partners, financial advisers and legal advisers.

Options granted to a Director, Chief Executive or substantial shareholder of the Company, or any of their respective associates, shall be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is a grantee of the options).

The total number of shares which may be issued upon exercise of all outstanding options granted under the 2012 Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options granted under the 2012 Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2012 Scheme without prior approval by the shareholders of the Company. Since the Shareholders approved to refresh the 10% limit on grant of share options under the 2012 Scheme at the 2015 AGM on 20 May 2015, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Scheme was 708,198,039 shares, representing approximately 13.61% of the issued share capital of the Company as at the date of this Report.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total issued share capital of the Company, without prior approval by the shareholders of the Company. Options granted to a substantial shareholder of the Company or an Independent Non-executive Director, or any of their respective associates, under the 2012 Scheme and any other share option schemes of the Company would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period in aggregate in excess of 0.1% of the Company's issued share capital and with an aggregate value, based on the closing price of the shares of the Company at the date of each grant, in excess of HK\$5 million must obtain prior approval from the shareholders of the Company.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$1 per each grant of options. The exercise period of the options granted under the 2012 Scheme shall be determined by the Board when such options are granted, provided that such period shall not end later than 6 years from the date of grant. The subscription price is determined by the Board and will not be lower than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of grant, and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant, and (iii) the nominal value of a Company's share.

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Scheme was 192,490,200 (2014: 201,074,000) representing 3.70% (2014: 3.87%) of the shares of the Company in issue at that date.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 29. SHARE OPTION SCHEME *(Continued)*

### 2012 Scheme *(Continued)*

The following table details and movements of the Company's share options granted under the Scheme held by employees (including directors) during the two years ended 31 December 2015:

#### For the year ended 31 December 2015

Name or category of participants	Date of grant	Exercise price (HK\$)	Exercisable Period	As at 1 January 2015	Granted during the year	Exercised during the year <sup>(Note 4)</sup>	Cancelled/ Lapsed during the year	As at 31 December 2015	Exercisable at 31 December 2015
<b>(a) Directors</b>									
Mr. Chong Tin Lung Benny	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	51,891,000	-	-	-	51,891,000	20,756,400
Mr. Jacobsen William Keith (Resigned with effect from 17 October 2015)	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	18,700,000	-	(7,480,000)	(11,220,000)	-	-
Mr. Lam Chi Yan	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	18,700,000	-	-	-	18,700,000	7,480,000
Dr. Santos Antonio Maria	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(Note 3)</sup>	1,500,000	-	-	-	1,500,000	1,500,000
Mr. Kong Kai Chuen Frankie <sup>(Note 5)</sup>	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(Note 3)</sup>	1,500,000	-	-	-	1,500,000	1,500,000
<b>(b) Employees in aggregate</b>									
	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	68,783,000	-	(7,292,800)	(5,208,000)	56,282,200	18,137,200
	20/04/2015	0.351	20/04/2016 to 19/04/2021 <sup>(Note 2)</sup>	-	22,617,000	-	-	22,617,000	-
<b>(c) Other eligible participants</b>									
	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	40,000,000	-	-	-	40,000,000	16,000,000
<b>Total</b>				<b>201,074,000</b>	<b>22,617,000</b>	<b>(14,772,800)</b>	<b>(16,428,000)</b>	<b>192,490,200</b>	
<b>Weighted average exercise price</b>				<b>0.184</b>	<b>0.351</b>	<b>0.184</b>	<b>0.184</b>	<b>0.204</b>	

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 29. SHARE OPTION SCHEME *(Continued)*

### For the year ended 31 December 2014

Name or category of participants	Date of grant	Exercise price (HK\$)	Exercisable Period	As at 1 January 2014	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2014	Exercisable at 31 December 2014
<b>(a) Directors</b>									
Mr. Chong Tin Lung Benny	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	-	51,891,000	-	-	51,891,000	-
Mr. Jacobsen William Keith	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	-	18,700,000	-	-	18,700,000	-
Mr. Lam Chi Yan	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	-	18,700,000	-	-	18,700,000	-
Dr. Santos Antonio Maria	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(Note 3)</sup>	-	1,500,000	-	-	1,500,000	-
Mr. Kong To Yeung Frankie	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(Note 3)</sup>	-	1,500,000	-	-	1,500,000	-
<b>(b) Employees in aggregate</b>	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	-	70,104,000	-	(1,321,000)	68,783,000	-
<b>(c) Other eligible participants</b>	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	-	40,000,000	-	-	40,000,000	-
<b>Total</b>				-	<b>202,395,000</b>	-	<b>(1,321,000)</b>	<b>201,074,000</b>	
<b>Weighted average exercise price</b>				-	<b>0.184</b>	-	<b>0.184</b>	<b>0.184</b>	

Notes:

- (1) The closing prices per Share immediately before 16 October 2014 and 20 April 2015 (the dates on which the share options were granted) were HK\$0.187 and HK\$0.335 respectively.
- (2) Share options granted under the 2012 Scheme on 16 October 2014 and 20 April 2015 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
First anniversary of the Date of Grant	40% of the total number of options granted
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	30% of the total number of options granted

- (3) Share options granted under the 2012 Scheme on 16 October 2014 shall vest in the grantees in accordance with the date falling on the end of the sixth month from the date of grant.
- (4) In respect of the share options exercised during the year, the weighted average share price immediately before the dates of exercise is HK\$0.400 and the weighted average share price at the dates of exercise is HK\$0.405.
- (5) Mr. Kong To Yeung Frankie changed his name to Kong Kai Chuen Frankie with effect from 3 March 2016.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**29. SHARE OPTION SCHEME** *(Continued)*

For the year ended 31 December 2014, 202,395,000 share options were granted by the Company to certain directors, employees and consultants of the Group on 16 October 2014 and 14,772,800 (2014: Nil) share options were exercised during the year ended 31 December 2015. The estimated fair value of the options granted on this date is HK\$18,237,000. Except for the 3,000,000 share options granted to certain Independent Non-executive Directors that have been vested on the date falling on the end of the sixth month from the date of grant, 40%, 30% and 30% of the remaining 199,395,000 share options granted are subject to the vesting period on the date of the first, second and third anniversary of the date of grant of such options respectively.

For the year ended 31 December 2015, 22,617,000 share options were granted by the Company to certain employees of the Group on 20 April 2015 and Nil share options were exercised. The estimated fair value of the options granted on this date is HK\$3,529,000. 40%, 30% and 30% of the 22,617,000 share options granted are subjected to the vesting period on the date of the first, second and third anniversary of the date of grant of such options respectively.

The fair value of the share options is determined using a Black-Scholes option pricing mode. Where relevant, the expected life used in the model has been adjusted based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioral considerations. Expected validity is based on the historical share price volatility over the past 5 years.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The inputs into the model were as follows:

	16 October 2014	20 April 2015
Grant date stock price	HK\$0.179	<b>HK\$0.345</b>
Exercise price	HK\$0.184	<b>HK\$0.351</b>
Risk free rate (Note a)	0.98%-1.05%	<b>0.94%</b>
Contractual life	5.50-6.00 years	<b>6 years</b>
Expected Option Period	4.5-5.0 years	<b>5 years</b>
Expected volatility (Note b)	53.33%-60.07%	<b>52.66%</b>
Expected dividend yield (Note c)	0.00%	<b>0.00%</b>

Notes:

- (a) The rate was determined with reference to the yields of Hong Kong government bonds and treasury bills.
- (b) Based on the historical price volatility of the Company.
- (c) Estimated by reference to the historical dividend payout of the Company.

During the year ended 31 December 2015, the Group recognised the total expense of HK\$11,895,000 (2014: HK\$2,519,000) in administrative expenses for year ended 31 December 2015 in relation to share options granted by the Company.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**30. RETIREMENT BENEFITS SCHEMES**

The relevant subsidiaries in Mainland China are required to make contributions to the state-managed retirement schemes in the PRC based on a specific percentage of the payroll costs of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The government in Mainland China is responsible for the pension liability to these retired staff.

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK\$1,500 per month effective from 1 June 2014 (prior to 1 June 2014: HK\$1,250).

For subsidiaries other than in Hong Kong and Mainland China, contributions are made to the defined contribution schemes by the Group at rates specified on the rules of the schemes at the relevant jurisdiction.

The total cost of HK\$2,488,000 (2014: HK\$2,405,000) recognised to profit or loss represents contributions payable to these schemes by the Group during the year.

**31. OPERATING LEASE COMMITMENTS****The Group as lessees**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>54,505</b>	45,652
In the second to fifth year inclusive	<b>85,861</b>	67,496
	<b>140,366</b>	113,148

Leases for rented premises are negotiated for terms of 2 to 10 years with fixed rental.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

## 32. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to banks to secure the bank borrowings granted to the Group:

	2015 HK\$'000	2014 HK\$'000
Inventories	16,141	16,351
Pledged bank deposits	59,655	58,896
Property, plant and equipment	43,453	44,571
	<b>119,249</b>	119,818

## 33. RELATED PARTY TRANSACTIONS

### Compensation of key management personnel

The remuneration of key management personnel of the Group during the year is as follows:

	2015 HK\$'000	2014 HK\$'000
Fees	582	569
Salaries and other benefits	8,797	9,748
Performance related incentive payments	2,212	6,645
Share-based payments	6,729	1,492
Retirement benefit scheme contributions	71	66
	<b>18,391</b>	18,520

The remuneration of key management personnel is determined by the directors having regard to the performance of individuals and market trends.

## 34. CAPITAL COMMITMENTS

At 31 December 2015 and 2014, the Group has no capital commitments in respect of the acquisition of property, plant and equipment contracted but not provided for.

---

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

### **35. DIVIDEND**

No dividend was paid or proposed during year ended 31 December 2015 (2014: Nil), nor has any dividend been proposed since the end of the reporting period (2014: Nil).

### **36. ACQUISITION OF ADDITIONAL INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY**

Pursuant to the purchase agreement dated 8 July 2014, CPLY Acquisition Corp. ("CPLY NewCo"), an indirect wholly-owned subsidiary of the Group, has conditionally agreed to purchase an aggregate of 9,879,389 shares, representing approximately 40.27% equity interest of China Premium Lifestyle Enterprise, Inc. ("CPLY") from six of the shareholders of CPLY, at a total consideration of approximately US\$839,749 (equivalent to approximately HK\$6,509,000) (the "Acquisition"). The Acquisition was completed on 26 August 2014 and accounted for as equity transaction when this change in the Group's ownership interests in CPLY does not result in the Group losing control over CPLY. Upon the completion, the Company holds indirectly 90.04% equity interest of CPLY.

Pursuant to the merger agreement date 24 September 2014, CPLY NewCo merged with CPLY in accordance with the applicable laws of the State of Nevada (the "Merger"). On the merger effective date of 24 September 2014 ("Merger Effective Date"), the separate existence of CPLY NewCo was ceased and CPLY is the surviving corporation. By virtue of the Merger and without any action on the part of the holder thereof, each share of common stock of CPLY, par value of US\$0.005 per share, issued and outstanding and held by any shareholder other than CPLY NewCo immediately prior to the Merger Effective Date was cancelled, at a total consideration approximately US\$207,701 (equivalent to approximately HK\$1,612,000). As of the Merger Effective Date, CPLY is the wholly-owned subsidiary of the Company. The difference between the consideration paid and the carrying amount of the additional interest acquired by the Group of HK\$9,397,000 was recognised in other reserve during the year ended 31 December 2014.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2015 and 2014 are as follows:

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Fully paid-up and issued/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2015 %	2014 %	
Corich Enterprises Inc.	British Virgin Islands	Ordinary	USD100	100#	100#	Investment holding
Home Crown Enterprises Ltd.	British Virgin Islands	Ordinary	USD1	100#	100#	Investment holding
Smart Apex Holdings Limited	British Virgin Islands	Ordinary	USD1	100	100	Investment holding
China Premium Lifestyle Enterprise, Inc.	United States	Common	USD122,672	100#	100#	Investment holding
AIL	Hong Kong	Ordinary	HK\$100,000	100#	100#	Trading of cars and related accessories and provision of car repairing services
Italian Motors (Sales & Service) Limited	Hong Kong	Ordinary	HK\$600,000	100#	100#	Investment holding
Rise Champ Limited	Hong Kong	Ordinary	HK\$1	100#	100#	Property holding
Technorient Limited	Hong Kong	Ordinary	HK\$46,168,700	100#	100#	Investment holding
Concept Will Limited	Hong Kong	Ordinary	HK\$1	100#	-	Provision of pre-delivery inspection consultancy services of Audi in Hong Kong

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

**37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY** *(Continued)*

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Fully paid-up and issued/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2015	2014	
				%	%	
勵快駿投資諮詢(上海)有限公司**	Mainland China	N/A	HK\$1,000,000	<b>100#</b>	100#	Provision of pre-delivery inspection consultancy services and warranting services of Ferrari and Maserati cars in Shanghai
Taine Holdings Limited	British Virgin Islands	Ordinary	USD1	<b>100#</b>	100#	Financial investments and provision of financial services
Auto Italia (Finance) Limited	British Virgin Islands	Ordinary	USD1	<b>100#</b>	100#	Financial investments and provision of financial services
Greenroot Investments Limited	British Virgin Islands	Ordinary	USD1	<b>100</b>	100	Investment holding
One Speed Limited	British Virgin Islands	Ordinary	USD1	<b>100#</b>	–	Investment holding

# These entities are indirectly held by the Company.

\*\* These entities are wholly foreign owned enterprises registered in Mainland China.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statements  
For the year ended 31 December 2015

### 38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2015 HK\$'000	2014 HK\$'000
<b>Non-current asset</b>		
Unlisted investments in subsidiaries	23,394	11,649
<b>Current assets</b>		
Other receivables	397	863
Amounts due from group companies	275,424	274,478
Bank balances and cash	733	889
	<b>299,948</b>	<b>287,879</b>
<b>Current liabilities</b>		
Other payables	4,878	4,567
Financial guarantee contracts	4,344	4,344
Total liabilities	9,222	8,911
Total assets less current liabilities	290,726	278,968
<b>Capital and reserves</b>		
Share capital (Note 27)	104,079	103,784
Reserves (Note)	186,647	175,184
Total equity	290,726	278,968

Note:

#### Reserves of the Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2014	115,678	2,151	-	46,396	(113,205)	51,020
Loss and total comprehensive expense for the year	-	-	-	-	(4,300)	(4,300)
Recognition of equity settled share-based payments	-	-	2,519	-	-	2,519
Issue of new shares	130,337	-	-	-	-	130,337
Transaction cost attributable to issue of new shares	(4,392)	-	-	-	-	(4,392)
At 31 December 2014	241,623	2,151	2,519	46,396	(117,505)	175,184
Loss and total comprehensive expense for the year	-	-	-	-	(2,841)	(2,841)
Recognition of equity settled share-based payments	-	-	11,895	-	-	11,895
Exercise of share options	3,757	-	(1,334)	-	-	2,423
Transfer upon lapse of share options	-	-	(14)	-	-	(14)
At 31 December 2015	245,380	2,151	13,066	46,396	(120,346)	186,647

## FIVE-YEAR FINANCIAL SUMMARY

	<b>2015</b>	2014	2013	2012	2011
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(restated)	(restated)
<b>Results</b>					
Revenue from continuing operations	<b>973,140</b>	1,095,363	1,182,788	1,190,230	1,114,500
Profit (loss) for the year	<b>27,756</b>	36,305	(55,662)	(82,239)	(23,200)
Attributable to:					
Owners of the Company	<b>27,756</b>	27,576	(48,042)	(79,270)	(25,422)
Non-controlling interests	-	8,729	(7,620)	(2,969)	2,222
	<b>27,756</b>	36,305	(55,662)	(82,239)	(23,200)
<b>Assets and liabilities</b>					
Total assets	<b>775,878</b>	763,981	692,679	912,795	938,851
Total liabilities	<b>(373,578)</b>	(404,885)	(535,095)	(721,958)	(740,358)
Net assets	<b>402,300</b>	359,096	157,584	190,837	198,493
Equity attributable to					
owners of the Company	<b>402,300</b>	359,096	148,866	182,757	187,309
Non-controlling interests	-	-	8,718	8,080	11,184
Total equity	<b>402,300</b>	359,096	157,584	190,837	198,493