



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

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

**2016**  
*Interim Report*



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## CORPORATE INFORMATION

### **DIRECTORS**

#### **Executive Directors**

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

Mr. LAM Chi Yan

#### **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. WONG Yat Tung

### **AUTHORISED REPRESENTATIVES**

Mr. CHONG Tin Lung Benny

Mr. WONG Yat Tung

### **REGISTERED OFFICE**

Canon's Court

22 Victoria Street Hamilton

HM12 Bermuda

**PRINCIPAL OFFICE IN HONG KONG**

Unit C, Ground Floor  
2 Yuen Shun Circuit  
Siu Lek Yuen, Shatin  
Hong Kong

**PRINCIPAL BANKERS**

China CITIC Bank International 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

**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)

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# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Car Division

#### *Revenue*

The business environment remained challenging in the first half of 2016 and had adversely affected the performance of our operations. The Car Division's revenue decreased by 11.7% to HK\$401.4 million (2015: HK\$454.7 million).

In mainland China, the revenue generated from our Pre-Delivery Inspection services in Shanghai maintained at HK\$32.1 million (2015: HK\$32.7 million) notwithstanding the adverse exchange variations of Renminbi against Hong Kong dollars during the 2016 interim period. Excluded the exchange variations, the Shanghai operation recorded approximately 5% increase in revenue.

In Hong Kong, our business was adversely affected by the subdued market sentiment on the luxury products market. The overall revenue from this location recorded a decrease of 12% to HK\$369.3 million (2015: HK\$422 million) and recorded a drop in overall car unit sales. Nevertheless, with the additional revenue contribution from the Pre-Delivery Inspection services for the Audi brand, our maintenance service income managed to record an increase of 19.6% to HK\$67 million (2015: HK\$56 million).

#### *Cost of Sales and Gross Profit*

Gross profit margin increased by 0.6 percentage point to 22.8%. Our gross profit decreased from HK\$101 million in the first half of 2015 to HK\$91.7 million owing to the decrease in overall car unit sales in Hong Kong operation.

#### *Selling and Distribution Costs and Administrative Expenses*

Selling and distribution costs and administrative expenses in the first half of 2016 aggregated to HK\$104.2 million (2015: HK\$105.0 million), which accounted for 25.9% (2015: 23%) of revenue. The net decrease of HK\$0.8 million was mainly due to a decrease in staff related cost resulting from the Group cost optimisation and restructuring plan in second quarter of 2016, but partially offset by an increase of rental cost and depreciation that included the full six months impact of the Maserati Showroom in Kowloon Bay which opened in June 2015.

#### *Finance Costs*

Finance costs in the first half of 2016 were reduced by 14.3% to HK\$1.2 million (2015: HK\$1.4 million).

## Financial Investments and Services and Property Investment Divisions

### **Operating Results**

For the six months ended 30 June 2016, the revenue of Financial Investments and Services Division dropped to HK\$2.8 million (2015: HK\$13.5 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit also dropped to HK\$0.4 million (2015: HK\$13.1 million) due to the HK\$5.3 million fair value loss of the derivative component of investments in convertible notes. Furthermore, the Group recorded a rental income of HK\$0.2 million for leasing the property of the Group to a third party. The tenancy agreement was commenced in June 2016.

### **Loss Attributable to Shareholders**

Loss attributable to shareholders of the Company for the six months ended 30 June 2016 was HK\$11.4 million (2015: Profit of HK\$6.5 million). It was mainly due to decreases in the Group's revenue and profit generated from both Car Division and Financial Investments and Services Division.

### **Liquidity and Financial Resources**

#### **Cash Flow**

In the first six months of 2016, the Group financed its operations primarily through cash generated from the Group's operations. The Group invested HK\$8.9 million in its capital expenditure which was mainly for the registration of demo cars for sales display purpose in showrooms.

#### **Cash and Cash Equivalents**

As at 30 June 2016, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$348 million as compared with HK\$267.3 million as at 31 December 2015, which were mainly denominated in Hong Kong dollars (as to 76%), Renminbi (as to 13%) and U.S. dollars (as to 11%).

#### **Bank Loans**

As at 30 June 2016, the Group had bank loans totalling HK\$76.4 million, of which HK\$5.8 million was repayable more than one year. Net cash position as at 30 June 2016 was HK\$271.6 million (31 December 2015: HK\$155.2 million), no gearing ratio is presented.

#### **Loan Receivables**

During the period, the Group had engaged in Financial Investments and Services business, which included the provision of loan financing. As at 30 June 2016, the Group had outstanding loans lent to customers totalling HK\$69 million (31 December 2015: HK\$76 million), which carry on interest rates of 8% per annum and will be repayable within six months.

## **Pledge of Assets**

As at 30 June 2016, certain of the Group's properties, bank deposits, inventories totaling HK\$115.4 million (31 December 2015: HK\$119.2 million) were pledged as securities for relevant bank loans and other bank facilities granted.

## **Capital Expenditures, Commitments and Contingent Liabilities**

As at 30 June 2016, the Group had total capital commitments (authorised but not contracted for) of HK\$15.4 million, primarily related to the 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 30 June 2016, the Group had no material contingent liabilities.

## **BUSINESS REVIEW**

### **Ferrari**

During the first half of 2016, delivery of new Ferraris declined due to several factors beyond our direct control. In spite of the Hong Kong launch success and market reception of the 488 GTB model, factory supply was curtailed due to worldwide demand and the late production of Right Hand Drive units released for our market. Deliveries of the California T H&S model were delayed until late May arrival and normal shipment is not anticipated until August. These two factors impacted on new car delivery. The delivery of the limited edition F-12 TDF models began in May and expected all local orders to be completed by the second half of this year. Ferrari also launched a limited LaFerrari Roadster in April and delivery, again in very limited allocation will commence soon. All deliveries of LaFerrari will be completed in this year.

After-sales Services were re-established after the refurbishment of the Shatin service facility, but the area of major concern is the recruitment of skilled technicians, a common problem share amongst the Hong Kong motor trade business which will affect the capabilities in servicing customers' car within a reasonable time.

Ferrari pre-owned business continues to bounce back after relocation from our old facility. Buyers are now familiarising with our new location and we experience a slow but steady increase of visitor's traffic.

With both new and pre-owned under one roof, we are pleased to report the synergistic effects of offerings a broad representation of current and old models for our visitors.



## **Maserati**

Amid the visible recession of economy in Hong Kong, overall sales of luxury car brand segment in the first quarter of 2016 dropped by 42% compared to 2015, while Maserati dropped 18% in the same period. With tactical sales campaigns and marketing activities, Maserati strived to create sales momentum and achieved over hundred units new car sold in first half of 2016 with a drop of 32% compared to 2015, while the total value of car sales decreased by 37% in the same period.

Under the weak automobile market, Maserati adopted more aggressive sales approaches by organising different test drive events in luxury residential areas and two car shows in high-end shopping malls, targeted to reach out to customers proactively. To utilise cost more effectively, Maserati also focused on digital marketing to generate brand exposure and create campaign awareness, which included but not limited to social media and online advertising. This also enables the brand to capture extensive database for future launch of new model ranges.

Customer opinion and satisfaction is paramount to Maserati and thus we conducted a revamp on WeChat platform with new interactive functions such as online Customer Satisfaction Survey (CSI) and test drive bookings to enhance our service quality and enabled instance responses to customers. With new CSI online platform launched, response rate of customer increased from 46.8% from Jan-May to 88% in Jun with average score remains highly positive at 98 out of 100.

## **Pre-Delivery Inspection**

For our Pre-Delivery Inspection Division, with strong demand of new model introduction, we have managed to sustain similar volume in the first half of the year compared to 2015 even with bulk of production yet to arrive in second half of the year.

## **After-sales Services**

### ***Ferrari***

As the broader luxury retail sector in Hong Kong faces continued headwinds, the overall Ferrari After-sales Services revenue in the first half of 2016 is stable. We anticipate long term growth from new model introductions and concerted marketing efforts to increase customer loyalty.

The new generation of 488 sports cars started delivery and will represent a large portion of After-sales Services in the near future, much like the 458 did in previous years. We expect that the volume of these sports cars will increase in proportional to new car sales, therefore additional technical staff are currently being trained to address projected volumes, and to maintain the regional industry standard for service appointment waiting times.



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## Management Discussion and Analysis

Several marketing programs were launched to increase customer loyalty and reintroduce the Ferrari experience, these include the Welcome Back program sponsored by Ferrari, and our Ferrari Hong Kong F430 and F360 specialty programs that increase service value for older models.

### ***Maserati***

Under significant contraction in the luxury automotive market segment in 2016, Maserati division managed to record increase in overall After-sales Services revenue and gross profit margin during the 2016 interim period, as compared with that of the six months ended 30 June 2015. We have been able to mitigate against this negative market trend with unit deliveries made in 2015.

With the launch of several After-sales loyalty programme in the second quarter cater to specific owner segments, the positive response from consumers has helped us to further increase our car parc penetration and profit margin.

In addition to the positive financial results, our Customer Satisfaction Index (CSI) turned in the best performance to date at 92.3% for the first half year with a sampling rate of over 90%.

## **Financial Investments and Services**

During the period, the Group continued to engage in financing business and financing-related consultancy services. The Group mainly provides short to medium-term financing, normally not exceeding 12 months, to our clients. Following the subscription of convertible bonds with a coupon rate of 5% per annum and in an aggregate principal amount of HK\$25 million in the second half of 2015, the Group continued to explore new investment opportunities, including equity investment with the aim of bringing long term enhancement of value to our shareholders.

## **HUMAN RESOURCES**

The Group employed a total of 215 employees as at 30 June 2016. 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.

## OUTLOOK

In the next few months, a number of product introductions are planned to further stimulate sales.

The arrival of the California T H&S will be supported by media activities as well as test drive programs aimed at previous owners. Initial comments from both media and owners were positive and we anticipate with fresh stock arrival, this model will contribute to our year end results. As to 488 GTB models, with sold stock arrivals, the key tasks will be delivery to the long awaited owners. The 488 Spider launch is also scheduled although we have taken orders, the physical showing of this model will boost our order intakes. The GTC4 Lusso is scheduled for a local reveal in the third quarter. A number of orders has already been placed and the showing of this unit, for a very limited time only, will hopefully attract more interest.

2016 year will be challenging as the business conditions for the first half has been fluid. This affects the retail sector across all automotive brands. We expect recovery will be slow but with new products from Ferrari, orders taking for future deliveries are seeing a slow rebound but the waiting time is still quite long. Meanwhile, the pre-owned business will gain the momentum in order to attain our internal objectives.

Adding up the SUV Levante, new variants of Quattroporte and new features on existing model in third and fourth quarter, the product range of Maserati will be more diversified and will create opportunities to expand the customer profile to other segments. It is believed that by conquering new segments of the market, we will progressively catch up the business and improve the profitability.

We look forward to the second half of the year that with a new model introduction, it will rejuvenate customer excitement and increase additional after-sales opportunities of the Group.

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## CORPORATE GOVERNANCE AND OTHER INFORMATION

### INTERIM DIVIDEND

The board of the directors of the Company (the "Board") resolved not to declare payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

### DISCLOSURE OF INTERESTS

#### **Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at 30 June 2016, the interests and short positions of each director ("Director(s)") and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (the "Shares") (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("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 Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange were 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 30 June 2016 are disclosed in the section headed "Share Option Scheme" of this interim report ("Report").

Save as disclosed above, as at 30 June 2016, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

## Corporate Governance and Other Information

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any Director or chief executive of the Company, as at 30 June 2016, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Number of Shares	Approximate percentage of shareholding <sup>#</sup>
Gustavo International Limited	304,725,000 <sup>(1)(2)</sup>	5.84%
Maini Investments Limited	304,725,000 <sup>(1)(2)</sup>	5.84%
VMS Investment Group Limited ("VMSIG")	1,498,016,472 <sup>(1)(2)</sup>	28.70%
VMS Holdings Limited ("VMSH")	1,498,016,472 <sup>(1)(2)</sup>	28.70%
Ms. MAK Siu Hang Viola	1,498,016,472 <sup>(1)(2)</sup>	28.70%
Ms. LO Ki Yan Karen	386,942,442 <sup>(2)(3)</sup>	7.41%

<sup>#</sup> Based on the total issued Shares of 5,219,541,190 as at 30 June 2016.

Notes:

(1) 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.

(2) All interests in the Shares are held in long positions.

(3) Ms. LO Ki Yan Karen (i) directly holds 177,661,192 Shares; and (ii) through a number of controlled corporations, holds an aggregate of 209,281,250 Shares. As such, Ms. LO Ki Yan Karen is interested in a total of 386,942,442 Shares by virtue of the SFO.

Ms. LO Ki Yan Karen is interested in the entire shareholding of Ristora Investments Ltd, which in turn is interested in 70.97% of Easy Rider Investments Limited, which in turn is interested in 100% of C.C Rider Investments Limited, which in turn is interested in 84.23% of HEC Capital Limited, which in turn is interested in 100% of HEC Development Limited, which in turn is interested in 100% of Murtsa Caputal Management Limited. Murtsa Caputal Management Limited is the beneficial owner of 209,281,250 Shares. By virtue of the SFO, Ms. LO Ki Yan Karen, Ristora Investments Ltd, Easy Rider Investments Limited, C.C Rider Investments Limited, HEC Capital Limited and HEC Development Limited are therefore deemed to be interested in all Shares held by Murtsa Caputal Management Limited.

## 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. Details of movements of the options under the Option Scheme during the period ended 30 June 2016 are set out below:

### During the period ended 30 June 2016

Name or category of participants	Date of grant	Exercise price (HK\$)	Exercisable Period	As at 1 January 2016	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	As at 30 June 2016
<b>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. 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	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(3)</sup>	1,500,000	-	-	-	1,500,000
<b>Employees in aggregate</b>								
	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(2)</sup>	56,282,200	-	(15,590,000) <sup>(4)</sup>	(5,610,000)	35,082,200
	20/04/2015	0.351	20/04/2016 to 19/04/2021 <sup>(2)</sup>	22,617,000	-	-	(3,210,000)	19,407,000
<b>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>192,490,200</b>	<b>-</b>	<b>(15,590,000)</b>	<b>(8,820,000)</b>	<b>168,080,200</b>

## Corporate Governance and Other Information

**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 shall vest 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 Shares immediately before the date on which share options were exercised during the period was HK\$0.220.

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

During the six months ended 30 June 2016, the Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities.

**CORPORATE GOVERNANCE**

Maintaining an effective corporate governance framework is one of the priorities of the Company. In the opinion of the Directors, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2016, except Code Provision A.2.1 of the CG Code.

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

Mr. CHONG Tin Lung Benny is the Executive Chairman and the Chief Executive Officer of the Company. He 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.

## MODEL CODE

The Company has adopted a code of conduct for transactions in the Company's securities by the Directors that complies with the Model Code. Following specific enquiries by the Company, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2016.

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of Directors subsequent to the date of the Company's 2015 annual report is set out below:

Dr. SANTOS Antonio Maria resigned as an independent non-executive director and the member of the remuneration committee, audit committee and nomination committee of Mason Financial Holdings Limited (Stock code: 273), which shares are listed on the Main Board of the Stock Exchange.

Directors who held office during the six months ended 30 June 2016 and up to the date of this interim report were:

### Executive Directors

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

### Independent Non-executive Directors

Dr. SANTOS Antonio Maria  
Mr. KONG Kai Chuen Frankie  
Mr. LEE Ben Tiong Leong

## REVIEW OF INTERIM RESULTS

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors. The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The interim results of the Group for the six months ended 30 June 2016 have not been audited but they have been reviewed by Deloitte Touche Tohmatsu, the auditor of the Company, and the Audit Committee.

By order of the Board

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

Hong Kong, 30 August 2016



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## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



### TO THE BOARD OF DIRECTORS OF AUTO ITALIA HOLDINGS LIMITED

#### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Auto Italia Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 40, which comprises the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### SCOPE OF REVIEW

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

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

30 August 2016

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	<b>404,383</b>	468,252
Cost of sales		<b>(309,706)</b>	(354,303)
<b>Gross profit</b>		<b>94,677</b>	113,949
Other income		<b>11,411</b>	8,529
Other gains and losses	4	<b>(7,777)</b>	(1,616)
Selling and distribution cost		<b>(69,073)</b>	(67,867)
Administrative expenses		<b>(37,736)</b>	(42,742)
Finance costs	5	<b>(1,210)</b>	(1,353)
(Loss) profit before taxation		<b>(9,708)</b>	8,900
Taxation	7	<b>(1,732)</b>	(2,401)
(Loss) profit for the period	6	<b>(11,440)</b>	6,499
(Loss) earnings per share			
– Basic	8	<b>(HK0.22 cent)</b>	HK0.13 cent
– Diluted	8	<b>(HK0.22 cent)</b>	HK0.12 cent

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

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
(Loss) profit for the period	<b>(11,440)</b>	6,499
<b>Other comprehensive income (expense)</b>		
<i>Item that will not be reclassified to profit or loss:</i>		
Gain on property revaluation upon transfer to investment properties	<b>3,626</b>	-
<i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<b>207</b>	(207)
Other comprehensive income (expense) for the period	<b>3,833</b>	(207)
Total comprehensive (expense) income attributable to owners of the Company for the period	<b>(7,607)</b>	6,292

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	At 30 June 2016 HK\$'000 (unaudited)	At 31 December 2015 HK\$'000 (audited)
<b>Non-current assets</b>			
Investment properties	11	46,800	–
Property, plant and equipment	10	59,497	108,403
Goodwill		2,480	2,480
Rental deposits		14,094	14,094
		<b>122,871</b>	124,977
<b>Current assets</b>			
Inventories		172,797	200,457
Tax recoverable		1,148	1,956
Trade and other receivables	12	49,467	78,450
Loan receivables	13	69,000	76,000
Investments in convertible bonds	14	24,985	26,772
Pledged bank deposits		48,888	59,655
Bank balances and cash		299,150	207,611
		<b>665,435</b>	650,901
<b>Current liabilities</b>			
Trade and other payables	15	303,403	252,943
Tax payable		7,748	7,695
Bank and other borrowings	16	70,656	105,532
Obligations under finance leases		–	74
		<b>381,807</b>	366,244
<b>Net current assets</b>		<b>283,628</b>	284,657
<b>Total assets less current liabilities</b>		<b>406,499</b>	409,634

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 Condensed Consolidated Statement of Financial Position

At 30 June 2016

	Notes	At 30 June 2016 HK\$'000 (unaudited)	At 31 December 2015 HK\$'000 (audited)
<b>Capital and reserves</b>			
Share capital	17	104,391	104,079
Reserves		295,644	298,221
<b>Equity attributable to owners of the Company</b>		<b>400,035</b>	402,300
<b>Non-current liabilities</b>			
Bank and other borrowings	16	5,756	6,610
Deferred taxation		708	724
		6,464	7,334
		<b>406,499</b>	409,634

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2016 (audited)	<b>104,079</b>	<b>245,380</b>	<b>2,151</b>	<b>13,066</b>	<b>15,620</b>	<b>907</b>	<b>166,431</b>	<b>(145,334)</b>	<b>402,300</b>
Loss for the period	-	-	-	-	-	-	-	<b>(11,440)</b>	<b>(11,440)</b>
Other comprehensive income for the period	-	-	-	-	<b>3,626</b>	<b>207</b>	-	-	<b>3,833</b>
Total comprehensive (expense) income for the period	-	-	-	-	<b>3,626</b>	<b>207</b>	-	<b>(11,440)</b>	<b>(7,607)</b>
Recognition of equity settled share-based payments	-	-	-	<b>2,473</b>	-	-	-	-	<b>2,473</b>
Issue of new shares upon exercise of share options	<b>312</b>	<b>3,965</b>	-	<b>(1,408)</b>	-	-	-	-	<b>2,869</b>
Transfer upon lapse of share options	-	-	-	<b>(403)</b>	-	-	-	<b>403</b>	-
At 30 June 2016 (unaudited)	<b>104,391</b>	<b>249,345</b>	<b>2,151</b>	<b>13,728</b>	<b>19,246</b>	<b>1,114</b>	<b>166,431</b>	<b>(156,371)</b>	<b>400,035</b>
At 1 January 2015 (audited)	103,784	241,623	2,151	2,519	15,620	72	166,431	(173,104)	359,096
Profit for the period	-	-	-	-	-	-	-	6,499	6,499
Other comprehensive expense for the period	-	-	-	-	-	(207)	-	-	(207)
Total comprehensive (expense) income for the period	-	-	-	-	-	(207)	-	6,499	6,292
Recognition of equity settled share-based payments	-	-	-	6,425	-	-	-	-	6,425
At 30 June 2015 (unaudited)	103,784	241,623	2,151	8,944	15,620	(135)	166,431	(166,605)	371,813



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		
Operating cash flows before movement in working capital	8,100	25,581
Decrease (increase) in inventories	27,660	(53,311)
Increase in trade and other payables	51,827	4,617
Decrease in loan receivables	7,000	11,270
Decrease in trade and other receivables	27,787	24,159
Other movement in operating activities	(862)	(825)
	<b>121,512</b>	11,491
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(8,931)	(20,528)
Proceeds from disposal of property, plant and equipment	1,920	3,025
Placement of pledged bank deposits	(31,491)	(5,930)
Withdrawal of pledged bank deposits	42,786	5,430
Other investing cash flows	223	350
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>4,507</b>	(17,653)
<b>FINANCING ACTIVITIES</b>		
Bank and other borrowings raised	174,803	297,478
Repayment of bank and other borrowings	(210,533)	(302,031)
Proceeds on issue of new shares	2,869	-
Other financing cash flows	(1,284)	(1,427)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(34,145)</b>	(5,980)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>91,874</b>	(12,142)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>207,611</b>	269,915
Effect of exchange rate changes	(335)	(215)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,</b> represented by bank balances and cash	<b>299,150</b>	257,558

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015. In addition, the following accounting policies are applicable upon the transfer of properties from property, plant and equipment to investment properties in the current period as set out in note 11.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### **2. PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the accounting period beginning on or after 1 January 2016.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### **3. SEGMENT INFORMATION**

During the six months ended 30 June 2016, the Group has three operating segments under HKFRS 8 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) Property investment.

The following is an analysis of the Group's revenue and results by reportable segments:

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 chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**3. SEGMENT INFORMATION** *(Continued)***Six months ended 30 June 2016 (unaudited)**

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Group revenue	401,396	2,836	151	404,383
<b>SEGMENT RESULTS</b>				
Segment (loss) profit	(4,958)	392	103	(4,463)
Interest income				223
Unallocated corporate expenses				(4,258)
Finance costs				(1,210)
Loss before taxation				(9,708)

**Six months ended 30 June 2015 (unaudited)**

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Group revenue	454,733	13,519	-	468,252
<b>SEGMENT RESULTS</b>				
Segment profit (loss)	5,833	13,116	(13)	18,936
Interest income				350
Unallocated corporate expenses				(9,033)
Finance costs				(1,353)
Profit before taxation				8,900

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**3. SEGMENT INFORMATION** *(Continued)*

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

**Segment assets and liabilities****At 30 June 2016 (unaudited)**

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	296,889	94,366	47,231	438,486
Bank balances and cash				299,150
Pledged bank deposits				48,888
Tax recoverable				1,148
Unallocated corporate assets				634
Consolidated assets				788,306
<b>Liabilities</b>				
Segment liabilities	297,729	81	811	298,621
Bank and other borrowings				76,412
Deferred taxation				708
Tax payable				7,748
Unallocated corporate liabilities				4,782
Consolidated liabilities				388,271

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**3. SEGMENT INFORMATION** *(Continued)***Segment assets and liabilities** *(Continued)*

At 31 December 2015 (audited)

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment 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

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, and bank and other borrowings.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**4. OTHER GAINS AND LOSSES**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
(Impairment loss) reversal of impairment loss on trade and other receivables, net	<b>(1,196)</b>	24
Gain (loss) on disposal of property, plant and equipment	<b>289</b>	(79)
Net foreign exchange loss	<b>(1,618)</b>	(1,561)
Loss on fair value change of derivative component of investments in convertible bonds (note 14)	<b>(5,252)</b>	-
	<b>(7,777)</b>	(1,616)

**5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interests on bank and other borrowings	<b>1,204</b>	1,347
Interests on finance leases	<b>6</b>	6
	<b>1,210</b>	1,353

**6. (LOSS) PROFIT FOR THE PERIOD**

(Loss) profit for the period has been arrived at after charging (crediting):

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Depreciation of property, plant and equipment	<b>11,654</b>	9,522
Reversal of allowance for inventories (included in cost of sales)	<b>-</b>	(324)



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**7. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Current tax:		
Hong Kong	<b>529</b>	1,894
Other jurisdictions	<b>1,203</b>	507
	<b>1,732</b>	2,401

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

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 periods and the service income for the non-PRC subsidiary with permanent establishment in the PRC is subject to deemed profit tax rate of 20%.

**8. (LOSS) EARNINGS PER SHARE**

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
(Loss) profit for the period for the purpose of calculating basic and diluted (loss) earnings per share	<b>(11,440)</b>	6,499

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**8. (LOSS) EARNINGS PER SHARE** *(Continued)***Number of shares**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	<b>5,212,003,168</b>	5,189,178,390
Effect of dilutive potential ordinary shares:		
Share options	–	63,296,304
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<b>5,212,003,168</b>	5,252,474,694

The computation of diluted loss per share for the period ended 30 June 2016 does not assume the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

**9. DIVIDEND**

No dividend was paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

**10. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2016, the Group spent HK\$7,564,000 (for the six months ended 30 June 2015: HK\$20,528,000) on the acquisition of property, plant and equipment. The Group also disposed of property, plant and equipment with a carrying amount of HK\$1,631,000 (for the six months ended 30 June 2015: HK\$3,104,000) resulting in a gain of HK\$289,000 (for the six months ended 30 June 2015: loss of HK\$79,000).

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**11. INVESTMENT PROPERTIES**

	HK\$'000
<b>Fair value</b>	
At 1 January 2015 and 31 December 2015	–
Transfer from property, plant and equipment	46,800
At 30 June 2016	46,800

In April 2016, properties with carrying value of approximately HK\$43,174,000 was transferred from property, plant and equipment in view of a change of use evidenced by end of owner-occupation. The investment properties were fair valued by an independent qualified professional valuer at HK\$46,800,000 at the date of transfer and a gain of approximately HK\$3,626,000 was recognised in other comprehensive income. In the opinion of directors, there is no significant change of fair value of the investment properties between the date of transfer and 30 June 2016.

The investment properties as at 30 June 2016 comprised industrial buildings and carparks located in Hong Kong.

**12. TRADE AND OTHER RECEIVABLES**

	At 30 June 2016 HK\$'000 (unaudited)	At 31 December 2015 HK\$'000 (audited)
Trade receivables	29,731	49,809
Less: Allowance for doubtful debts	(1,825)	(641)
	<b>27,906</b>	49,168
Purchase deposits	6,228	18,388
Utility and rental deposits	2,281	2,036
Prepayments and other receivables	13,052	8,858
	<b>49,467</b>	78,450

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**12. TRADE AND OTHER RECEIVABLES** *(Continued)*

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>At 30 June 2016 HK\$'000 (unaudited)</b>	At 31 December 2015 HK\$'000 (audited)
0 – 30 days	<b>16,325</b>	35,428
31- 60 days	<b>5,094</b>	10,349
61 – 90 days	<b>1,658</b>	419
91 days to 1 year	<b>4,735</b>	2,878
Over 1 year	<b>94</b>	94
	<b>27,906</b>	49,168

As the balances were either subsequently settled or these customers have good repayment history, the amounts are still considered recoverable. Accordingly, the directors believe that no further impairment is required.

**13. LOAN RECEIVABLES**

	<b>At 30 June 2016 HK\$'000 (unaudited)</b>	At 31 December 2015 HK\$'000 (audited)
Fixed-rate loans	<b>69,000</b>	76,000

During the six months ended 30 June 2016, HK\$7,000,000 of the loan receivables outstanding at 31 December 2015 have been early repaid. As at 30 June 2016, the loans amounts of HK\$38,000,000 and HK\$31,000,000 (31 December 2015: HK\$38,000,000 and HK\$38,000,000) will be repaid in November 2016 and December 2016 respectively which carry on interest rate of 8% per annum. As at 30 June 2016, the balances were secured by listed securities in Hong Kong with fair values of HK\$97,500,000 and HK\$84,360,000 (31 December 2015: HK\$61,600,000 and HK\$61,600,000) respectively.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**14. 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.

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, 31 December 2015 and 30 June 2016 are calculated using the Binomial Model. The inputs into the model were as follows:

	31 December 2015	<b>30 June 2016</b>
Stock price	HK\$0.226	<b>HK\$0.140</b>
Exercise price	HK\$0.250	<b>HK\$0.250</b>
Discount rate	31.415%	<b>30.757%</b>
Risk-free rate (Note a)	0.084%	<b>0.177%</b>
Expected volatility (Note b)	54.206%	<b>40.251%</b>
Expected dividend yield (Note c)	0.000%	<b>0.000%</b>
Option life	0.867 year	<b>0.367 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**14. INVESTMENTS IN CONVERTIBLE BONDS** *(Continued)*

During the six months ended 30 June 2016, the Group recognised fair value loss of the derivative component of investments in convertible bonds of HK\$5,252,000 (six months ended 30 June 2015: nil) in other gains or losses and effective interest income of HK\$3,465,000 (six months ended 30 June 2015: nil) in other income respectively.

As at 30 June 2016, the carrying amounts of the debt and the derivative components of the investments in convertible bonds are HK\$24,955,000 and HK\$30,000 respectively (31 December 2015: HK\$21,490,000 and HK\$5,282,000 respectively).

**15. TRADE AND OTHER PAYABLES**

	<b>At 30 June 2016 HK\$'000 (unaudited)</b>	At 31 December 2015 HK\$'000 (audited)
Trade payables	<b>31,754</b>	21,511
Deposits received from customers	<b>226,851</b>	171,953
Advance payments from customers	<b>10,471</b>	8,040
Accrued charges	<b>14,042</b>	17,795
Other payables	<b>20,285</b>	33,644
	<b>303,403</b>	252,943

The following is an aged analysis of trade creditors by age, presented based on invoice date, at the end of the reporting period:

	<b>At 30 June 2016 HK\$'000 (unaudited)</b>	At 31 December 2015 HK\$'000 (audited)
0 – 30 days	<b>20,855</b>	14,431
31 – 60 days	<b>1,716</b>	5,225
61 – 90 days	<b>6,926</b>	120
91 days to 1 year	<b>1,002</b>	949
Over 1 year	<b>1,255</b>	786
	<b>31,754</b>	21,511

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**16. BANK AND OTHER BORROWINGS**

During the current interim period, the Group obtained several new bank loans from various banks amounting to approximately HK\$174,803,000 (six months ended 30 June 2015: HK\$297,478,000) and repaid approximately HK\$210,533,000 (six months ended 30 June 2015: HK\$302,031,000). The new loans carry interest at variable market rates ranging from 1.86% to 4.75% per annum (six months ended 30 June 2015: 1.88% to 5.00% per annum).

**17. SHARE CAPITAL**

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.02 each:		
Authorised		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	17,500,000,000	350,000
Issued and fully paid		
At 1 January 2015 and 30 June 2015	5,189,178,390	103,784
At 1 January 2016	5,203,951,190	104,079
Exercise of share option (Note)	15,590,000	312
At 30 June 2016	5,219,541,190	104,391

Note: During the six months ended 30 June 2016, the Company issued and allotted a total of 15,590,000 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 Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**18. 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>At 30 June 2016 HK\$'000 (unaudited)</b>	At 31 December 2015 HK\$'000 (audited)
Within one year	<b>57,415</b>	54,505
In the second to fifth year inclusive	<b>59,030</b>	85,861
	<b>116,445</b>	140,366

Leases for rented premises are negotiated for terms of 1 to 5 years with fixed rental.

**The Group as lessor**

At the end of the reporting period, investment properties with fair value of HK\$46,800,000 was rented out under non-cancellable operating leases. The future minimum lease payments receivable by the Group under the leases is as follows:

	<b>At 30 June 2016 HK\$'000 (unaudited)</b>	At 31 December 2015 HK\$'000 (audited)
Within one year	<b>1,923</b>	-
In the second to fifth year inclusive	<b>3,366</b>	-
	<b>5,289</b>	-

Lease for the premises is negotiated for terms of 3 years with fixed rental.



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**19. RELATED PARTY TRANSACTIONS**

The Group had entered the following significant transactions with its related parties:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Key management personnel compensation (Note)	<b>5,449</b>	8,319

Note: The remuneration of key management personnel during the period were determined by the directors having regard to the performance of individuals and market trends.

**20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS****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		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2016	31 December 2015				
Conversion options embedded in CB (as defined in note 14) classified as financial asset at FVTPL in the condensed consolidated statement of financial position	<b>Assets - HK\$30,000</b>	Assets - HK\$5,282,000	Level 3	Binomial 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, 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)

## 20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

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

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. A 5% increase/decrease in the share price of New Sports Group holding all other variables constant would increase/decrease the carrying amount of the conversion options embedded in the convertible bonds by HK\$24,000 (six month ended 30 June 2015: nil). A 5% increase/decrease in the expected volatility of the share price of a set of comparable companies with similar business nature with New Sports Group holding all other variables constant would increase/decrease the carrying amount of the conversion options embedded in the convertible bonds by HK\$6,000 (six month ended 30 June 2015: nil).

### **Fair value measurements and valuation processes**

The Group engages qualified external valuers to perform valuations for financial instruments. The accounting officers report the findings of the valuation prepared by the qualified external valuers to the board of directors of the Group every half year and explain the cause of fluctuations in the fair value of the financial instruments. Information about the valuation techniques and inputs used in determining the fair value of various financial assets are disclosed above.

The carrying amounts of the financial assets and financial liabilities carried at amortised cost recognised in the condensed consolidated financial statement approximate their fair values.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**21. SHARE-BASED PAYMENTS**

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 28 May 2012 for the primary purpose of providing incentives to directors and eligible employees, and will expire on the 10th anniversary of the date of adoption.

The table below discloses movement of the Company's share options held by the Group's employees:

	Number of share options
Outstanding as at 1 January 2016	192,490,000
Exercised during the period	(15,590,000)
Lapsed during the period	(8,820,000)
Outstanding as at 30 June 2016	168,080,000

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 15,590,000 (six months ended 30 June 2015: nil) share options were exercised during the six months ended 30 June 2016. The estimated fair value of the options granted on 16 October 2014 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

**21. SHARE-BASED PAYMENTS** *(Continued)*

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. Changes in variables and assumptions may result in changes in the fair value of the options.

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	HK\$0.345
Exercise price	HK\$0.184	HK\$0.351
Risk free rate	0.98% – 1.05%	0.94%
Contractual life	5.50 – 6.00 years	6.00 years
Expected Option Period	4.50 – 5.00 years	5.00 years
Expected volatility	53.33% – 60.07%	52.66%
Expected dividend yield	0.00%	0.00%

During the six months ended 30 June 2016, the Group recognised the total expense of HK\$2,473,000 (six months ended 30 June 2015: HK\$6,425,000) in administrative expenses in relation to share options granted by the Company.

**22. SUBSEQUENT EVENT**

On 1 August 2016, the Group entered into an agreement with an independent third party (the "Third Party") to acquire the Third Party's 15% beneficial interests in its investment in preference shares of a private company (the "Investee") at a price of US\$4,800,000 (equivalent to approximately HK\$37,241,000). The Investee is engaged in automobile finance business. The management of the Company is in the process of assessing the financial impact to the Group.