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

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

2016 Annual Report

Contents

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

Corporate Information

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Unit C, Ground Floor
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Siu Lek Yuen
Shatin, Hong Kong
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Fax: (852) 2363 1437
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PRINCIPAL BANKERS
China CITIC Bank International Limited
Dah Sing Bank, Limited
OCBC Wing Hang Bank Limited
ORIX Asia Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

LEGAL ADVISORS
Hong Kong
Troutman Sanders
Howse Williams Bowers

Bermuda
Appleby

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA
Estera 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

Chairman's Statement

Dear Shareholders,

2016 marked a challenging year to the Group, due to the unfavourable business environment stemmed from uncertainties as I had predicted in my last year's annual report. In fact, more unexpected incidents have extended the already long global economic recovery. Compounded by extreme market volatility, Hong Kong's retail market continuing a sustained decline. Along with other uncomplimentary business factors, the performance of the Group was adversely affected. The Group recorded a net loss of approximately HK$12.4 million for the year ended 31 December 2016, as compared to a net profit of approximately HK$27.8 million for the year ended 31 December 2015 and our consolidated revenue was dropped by 23.7% to HK$742.5 million.

2016 saw challenges for both the Ferrari and Maserati businesses, the slowdown in global automotive market, as well as the aggressive pricing strategy by market competitors, weighed on the sales of both new and used vehicles. The importer and dealership of Ferrari in Hong Kong and Macau will conclude on 27 May 2017, we are in sincere communication and cooperation with Ferrari in order to smoothly handover the business, safeguard both customers' and the Company's interests. In the meantime, the Company will shift the focus and effort to other current businesses to maintain its profitability. On the Maserati front, we are taking a more proactive marketing approach to reach our prospects and extend business opportunities outside the showrooms, which is expected to deliver promising results.

Aftersales business saw positive performance after we have launched different services and maintenance programmes for car owners. Both spare parts revenue and supply rate logged increase contributed by the improved stock turnover. Our Pre-Delivery Inspection (PDI) operation for Ferrari and Maserati in Mainland China performed well as demand grew in China, while our Audi Hong Kong PDI operation also achieved satisfactory progress. We are devoted to explore every opportunity in PDI business with other brands and seek further expansion amid the robust backdrop of luxury auto business in the country.

Looking ahead, 2017 remains to be another challenging year, especially after a series of "black swan" in 2016. Due to an uncertain retail sentiment on luxury products in Hong Kong along with continuous slowdown in Chinese economy, we expect to see a more perplexing business environment in the sale of luxury cars in the Hong Kong market.

Nonetheless, we expect new deliveries and launches to bring back sales momentum for the Group. With the expanded profile of Maserati, we will sustainably strengthen our competitiveness and seize the opportunity for further improvement.

While we remain confident that our car business operation will continue to be profitable for our Shareholders, its long-term financial performance may likely be limited due to the fact that we now only operate Maserati dealership businesses in Hong Kong.

With an aim to bringing progressive profitability and long-term enhancement of value to our Shareholders, we remain open and are constantly looking to explore new business opportunities. Bracing the uncertainties and challenges, the Group will continue to strive for long term profitability through the implementation of aggressive sales and marketing strategies, improvement of operational efficiency and maintain high levels of financial discipline. In addition, we remain open and are constantly looking to explore new business opportunities in the auto, real estate and financial areas.

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, 28 March 2017

Management Discussion and Analysis

FINANCIAL REVIEW

Car Division

Revenue

The business environment remained challenging in 2016 and had adversely affected the performance of our operations. The Car Division's revenue decreased by 23% to HK$736 million (2015: HK$955.6 million).

In Mainland China, the revenue generated from our pre-delivery inspection and warranty services in Shanghai decreased by 24.6% to HK$77.8 million (2015: HK$103.2 million) caused by the decrease of the warranty services income and the adverse exchange variations of Renminbi against Hong Kong dollars during 2016.

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 22.8% to HK$658.2 million (2015: HK$852.4 million) and recorded a drop in overall car unit sales. Nevertheless, with the additional revenue contribution from the pre-delivery inspection service for the Audi brand, our maintenance service income managed to record an increase of 4.7% to HK$127.8 million (2015: HK$122 million).

Cost of Sales and Gross Profit

Gross profit margin in 2016 recorded an increase from 24.6% in 2015 to 24.9% in 2016. Our gross profit decreased from HK$235.3 million in 2015 to HK$183 million owing to the decrease in overall car unit sales in Hong Kong operation.

Other Income

For the year ended 31 December 2016, other income amounted to HK$21.5 million (2015: HK$21.8 million). The net decrease of HK$0.3 million was the net impact from the absence of dividend income (2015: HK$8.5 million) and the forfeiture of customer deposit of HK$6.2 million (2015: Nil).

Other Gains and Losses

Other gains and losses amounted to a net loss of HK$3.9 million (2015: loss of HK$8.0 million) which included net foreign exchange loss of HK$4.9 million and gain on disposal of property, plant and equipment of HK$0.4 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2016 aggregated to HK$205.7 million (2015: HK$216.9 million), which accounted for 28% (2015: 22.7%) of revenue. The net decrease of HK$11.2 million was mainly due to a decrease in staff related cost resulting from the Group cost optimization and restructuring plan in second quarter of 2016 and decrease in marketing expenses but partially offset by an increase in rental cost and depreciation that included the full year impact of the Maserati Showroom in Kowloon Bay which opened in June 2015.

Finance Costs

Finance costs in 2016 were reduced by 3.4% to HK$2.8 million (2015: HK$2.9 million).

Financial Investments and Services and Property Investment Divisions

Operating Results

For the year ended 31 December 2016, the revenue of Financial Investments and Services division decreased to HK$5.5 million (2015: HK$17.5 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit decreased by HK$13.6 million to HK$4.3 million (2015: HK$17.9 million).

During the year, the Group has redeemed the convertible bonds of an aggregate principal amount of HK$25 million and recognised an interest income of HK$4.8 million and fair value loss on the derivative component of investments in convertible bonds of HK$5.3 million.

On 1 August 2016, the Group entered into an agreement (the "Agreement") with an independent third party (the "Third Party") to acquire the Third Party's 15% beneficial interests in its investment in preference shares (the "Investment") of a private company (the "Investee") at a price of US$4.8 million (equivalent to approximately HK$37.3 million), representing less than 1% of the preference shares of the Investee.

The Investment could be redeemed at the discretion of the Third Party from and after the fifth anniversary of issue date and redemption price includes dividend declared but unpaid, the purchase price of shares and interest of 8% per annum. The Investment also contained conversion options to convert the shares into ordinary shares of the Investee. Pursuant to the Agreement, the Investment could be assigned or transferred on mutual agreement with the Third Party.

Furthermore, the Group recorded a rental income of HK$1 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 year was HK$12.4 million (2015: profit of HK$27.8 million). Such loss is primarily attributable to the decline in revenue of the Car Division and Financial Investments and Services Division due to uncertain economic environment and subdued market sentiment.

Liquidity and Financial Resources

Cash and Cash Equivalents

As at 31 December 2016, the Group had cash and cash equivalents (including pledged bank deposits) of HK$295.7 million as compared with HK$267.3 million as at 31 December 2015, which were denominated in Hong Kong dollars (as to 70%), Renminbi (as to 17%) and U.S. dollars (as to 12%).

Bank and Other Borrowings

As at 31 December 2016, the Group had bank and other borrowings totalling HK$90.6 million (2015: HK$112.1 million), of which HK$4.9 million were repayable more than one year. Net cash position as at 31 December 2016 was HK$205 million (2015: HK$155.2 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 2016, the Group had outstanding secured loans lent to customers totalling HK$57 million (31 December 2015: HK$76 million), which carry an interest rate of 8.0% per annum and were repayable within 12 months. One of the customers had subsequently fully repaid the loan of HK$31 million to the Group in February 2017.

Pledge of Assets

As at 31 December 2016, certain of the Group's properties, bank deposits, inventories totalling HK$136.3 million (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 31 December 2016, the Group had total capital commitments of HK$11.4 million (2015: HK$16.4 million), of which contracted for of HK$5.6 million (2015: Nil) and authorised but not contracted for of HK$5.8 million (2015: HK$16.4 million), primarily related to addition of production lines and renovation in Shanghai PDI operation. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2016, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

On 10 March 2017, the Group and Ferrari entered into a term sheet concerning the transitional arrangements of Ferrari vehicle orders and aftersales services for the period from 27 May 2017 until 30 September 2017. It is contemplated that a legally binding definitive agreement for the transitional arrangements will be entered into upon further discussions and negotiations between the Group and Ferrari.

HUMAN RESOURCES

The Group employed a total of 222 employees as at 31 December 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.

BUSINESS REVIEW

Ferrari

2016 was a disappointment for the Ferrari business. The overall economy in Hong Kong was stagnant while the automotive segment experienced a decline. Manufacturers are adapting aggressive pricing strategy featuring weekly events with special offers across all brand and models.

Delivery of new Ferrari recorded an annual drop. Shipment of the new 488 continued to be erratic due to strong demand of other core markets. The launch of the California T H&S edition midyear garnered rave reviews by the local media and from potential customers who test drove the vehicle. But with the more aggressive pricing, this model failed to deliver the market response in new order intake as projected. The popular 488 Coupe/Spider models were also affected by Ferrari revised pricing. Market competitors of the 488 model were pursuing very aggressive pricing strategy and offered much shorter delivery time. This offer causes our potential customers to further reconsider the brand.

With the F-12 model coming at the end of the model cycle, interests shifted to the TDF model with limited demand by the factory allocation to qualified buyers. Delivery of this model started in the third quarter of 2016 and projected to complete in 2017. Deliveries of LaFerrari were all completed within this year and the new roadster model will be started in 2017.

The GTC4 Lusso launched in the third quarter of 2016 and was supported by various marketing events. Market response was positive but with no demonstrator till 2017, new orders taken during the launch were disappointing.

The pre-owned business experienced a slower sale with the overall slowdown in the automotive market affecting both new and pre-owned automobiles.

Visitors' number to the Repulse Bay showroom remained steady as viewings of both new and pre-owned automobiles are now under one premium facility.

On 29 November 2016, the Group received an advice from Ferrari to terminate the import and distribution rights of "Ferrari" cars in Hong Kong and Macau with effect from 27 May 2017. On 10 March 2017, the Group and Ferrari entered into a term sheet concerning the transitional arrangements of Ferrari vehicle orders and aftersales services for the period from 27 May 2017 until 30 September 2017. It is contemplated that a legally binding definitive agreement for the transitional arrangements will be entered into upon further discussions and negotiations between the Group and Ferrari.

Maserati

Under global economy downturn and volatile market, Hong Kong's retail market continuing a sustained decline. For 2016 as a whole, both the value of total retail sales of luxury goods and sales of luxury car segment in Hong Kong decreased by double-digit percentage compared with 2015. Affected by the market circumstances, Maserati recorded a drop in number of car sold.

Launch of the new SUV Levante in September 2016 successfully aroused market awareness and received good responses. However, the production delay and shipment suspension from factory resulted in the decrease in sales number. With the first lot of delivery in the first quarter of 2017, more Levante will hit on road and it is believed that the presence will enhance the brand recognition and product awareness and drive up the sales momentum while contributing a substantial increase on the overall sales volume in the coming year.

For marketing, Maserati focused on client acquisition and adopted direct sales approaches to reach out different target groups, including test drive events for professional associations, entrepreneurs and luxury residential areas and car shows in high-end shopping malls, creating more platforms to step out from the showrooms for sale opportunities and to directly connect with potential customers. Collaborations with luxury brands also proved to create brand synergy and attract potential customers from luxury segment. Maserati also continued to reinforce brand presence by digital marketing in cost effective approach. This not only allowed us to manage flexible and vibrant creatives but can also enhance the brand image in more dynamic approaches and capture extensive database for different sales campaigns. Regarding on Customer Relationship Management, customer satisfaction remained highly positive reflecting an overall high quality service standard in terms of sales facilities and sales process in the Group.

After-sales Services

The overall revenue for after-sales services in Hong Kong recorded an increase in 2016. In addition to positive sales results, our focus on business operational standards also produced substantial improvements in spare parts inventory control, CSI (Customer Satisfaction Index) and Manufacturer KPI (Key Performance Index). In recognition of exceeding manufacturer KPI requirements, the Maserati After-sales team received the award of "Best Performer of After Sales 2016" in Asia Pacific region (SEAP) by Maserati S.p.A.

In spite of weak economy overall in automotive retail segment, our Pre-Delivery Inspection ("PDI") operation in Mainland China recorded an increase in volume output in units deliver based on strong demands from Mainland China and the long waited introduction of Maserati sports utility vehicle, Levante.

OUTLOOK

Looking forward to 2017, Maserati new models are in the pipeline – Quattroporte GTS GranSport, the flagship sedan with V8 engine will be launched in the first quarter while limited edition of GranTurismo will be arriving in Hong Kong in the first half of 2017. With the expanded profile of Maserati, we will sustainably strengthening our competitiveness and seize the opportunity for further improvement.

With the imminent conclusion of the Ferrari franchise, the Group is actively evaluating automotive market opportunities in both Mainland China and Hong Kong. We are confident that with Maserati serving as the bedrock franchise, decision will be made in merits and not in haste.

Directors and Senior Management Profiles

Mr. CHONG Tin Lung Benny
Executive Director, Executive Chairman and Chief Executive Officer

Aged 44, 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 founder and chairman of VMS Group since 2006. Mr. Chong has accumulated over 20 years of experience in the financial and investments industry. VMS Group Companies principally engaged in the provision of proprietary investments, private equity, asset management, securities brokerage and corporate finance advisory services. Mr. Chong is a Chartered Financial Analyst. He obtained a Bachelor of Science in Commerce from the University of Toronto in 1994 and a Master of Science in Investment Management from the Hong Kong University of Science and Technology in 2000.

Mr. LAM Chi Yan
Executive Director

Age 50, 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 60, 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.

Directors and Senior Management Profiles

Mr. KONG Kai Chuen Frankie
Independent Non-executive Director

Aged 53, 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 55, 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 expert 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 13 years covering/uncovering new gaming projects around Asia-Pacific and is currently consulting 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 2016 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 2016, 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 13 and "**Corporate Governance Report – Directors' and Officers' Liabilities Insurance**" on page 31 of this Report respectively. These discussions form part of this Directors' Report.

Possible Risks and Uncertainties

Description of possible risks and uncertainties are provided in the Sections headed "**Chairman's Statement**" on pages 4 to 5, "**Management Discussion and Analysis**" on pages 6 to 13 and "**Corporate Governance Report – Risk Management and Internal Control**" on pages 35 to 36, respectively.

Compliance with Laws and Regulations

As at 31 December 2016 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 2016, a couple of events were organized and they were all well received by employees.

Charitable Donations

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

Environment

The Group recognises the importance of environmental protection. Being a responsible company, we continue operating in a more environmental-friendly approach by using fewer natural resources, saving energy and reducing waste.

Awards

The Group was being awarded a Social Caring Pledge Logo, this Logo is awarded by 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 purpose of Social Caring Pledge is to ensure public confidence that all people and entities who need care and support services will always be treated with dignity and respect.

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.

Other information in relation to Corporate Social Responsibilities are provided in the section headed "**Environmental, Social and Governance Report**"

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.

SEGMENTAL INFORMATION

Details of segmental information are set out in Note 5 to the financial statements.

FINANCIAL STATEMENTS

The financial results of the Group for the year ended 31 December 2016 and the state of the Company and the Group's affairs as at that date are set out in the financial statements on pages 49 to 141 of this Report.

DIVIDENDS

The Directors do not recommend the payment of a final dividend (2015: Nil) for the year ended 31 December 2016. No interim dividend was paid during the year (2015: 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 142.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company during the year are set out in Note 26 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 28 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 on page 59 and page 141 of this Report respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distributions to shareholders as at 31 December 2016 comprised the share premium, share option reserve plus accumulated loss with an aggregate amount of approximately HK$138,720,000 (2015: HK$138,100,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations of HK$8,800 (2015: HK$61,800).

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 80.4% of the Group's purchases during the year, 53.8% being attributable to the largest supplier. The percentage of turnover attributable to the Group's five largest customers is less than 13.6% 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 2016. 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 2016.

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

Independent Non-executive Directors ("INED(s)")
Dr. SANTOS Antonio Maria
Mr. KONG Kai Chuen Frankie
Mr. LEE Ben Tiong Leong

In accordance with Bye-law 99 of the bye-laws of the Company ("Bye-laws"), Mr. LAM Chi Yan and Mr. KONG Kai Chuen Frankie retire from office by rotation at the forthcoming annual general meeting (the "AGM") and, being eligible, offer themselves for re-election.

The INEDs are also subject to retirement by rotation in accordance with the Bye-laws. The Company has received from each INED 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 INEDs to be independent.

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 2016, 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 2016 are disclosed in the section headed "Share Option Scheme" of this Report.

DIRECTORS' INTERESTS IN ASSETS, TRANSACTION AND/OR ARRANGEMENT

At 31 December 2016, 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 2016, there was no other transaction or arrangement subsisting in which a Director 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 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors (including INEDs) 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 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

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

As at 31 December 2016, 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:

Shareholder(s)	Number of Shares	Approximate % of the total issued Shares#
Gustavo International Limited	304,725,000 *(Note 1)*	5.84%
Maini Investments Limited	304,725,000 *(Note 1)*	5.84%
VMS Investment Group Limited ("VMSIG")	1,498,016,472 *(Note 1)*	28.70%
VMS Holdings Limited ("VMSH")	1,498,016,472 *(Note 1)*	28.70%
Ms. MAK Siu Hang Viola	1,498,016,472 *(Note 2)*	28.70%
Ms. LO Ki Yan Karen	386,942,442 *(Note 2)*	7.41%

\# Based on the total issued Shares of 5,219,541,190 at 31 December 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% interests 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) As at 31 December 2016, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

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.

The purpose of the Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any invested entity.

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. eligible employees, including Directors; or

2. suppliers or customers; or

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 INEDs (excluding any INED who is a grantee of the options).

SHARE OPTION SCHEME *(Continued)*

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 total number of shares available for issue under the Option Scheme is 518,917,839 Shares which represents 9.94% 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.

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.

The Option Scheme is valid and effective for a term of ten years commencing from 28 May 2012.

SHARE OPTION SCHEME *(Continued)*

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the year ended 31 December 2016 were as below:

Name or category of participants	Date of grant	Exercise price *(HK$)*	Exercisable Period	As at 1 January 2016	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2016
(a) Directors								
Mr. CHONG Tin Lung Benny	16/10/2014	0.184	16/10/2015 to 15/10/2020 (2)	51,891,000	–	–	–	51,891,000
Mr. LAM Chi Yan	16/10/2014	0.184	16/10/2015 to 15/10/2020 (2)	18,700,000	–	–	–	18,700,000
Dr. SANTOS Antonio Maria	16/10/2014	0.184	16/04/2015 to 15/04/2020 (3)	1,500,000	–	–	–	1,500,000
Mr. KONG Kai Chuen Frankie	16/10/2014	0.184	16/04/2015 to 15/04/2020 (3)	1,500,000	–	–	–	1,500,000
(b) Employees in aggregate	16/10/2014	0.184	16/10/2015 to 15/10/2020 (2)	56,282,200	–	(15,590,000)	(7,208,400)	33,483,800
	20/04/2015	0.351	20/04/2016 to 19/04/2021 (2)	22,617,000	–	–	(22,006,000)	611,000
(c) Other eligible participants	16/10/2014	0.184	16/10/2015 to 15/10/2020 (2)	40,000,000	–	–	–	40,000,000
Total				**192,490,200**	**–**	**(15,590,000)**	**(29,214,400)**	**147,685,800**

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"):

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 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.

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 2016, 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 2016, 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, 28 March 2017

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 2016, except Code Provisions A.2.1 of the CG Code which are explained in the sub-section headed "**Chairman and Chief Executive Officer**" respectively 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, during the year ended 31 December 2016, the Directors confirmed 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 INEDs.

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

INEDs

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

THE BOARD OF DIRECTORS *(Continued)*

The Listing Rules require every listed issuer to have INEDs 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, one of the INEDs, 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 INED is required to confirm his independence in accordance with Rule 3.13 of the Listing Rules annually.

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 and Senior Management 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) 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 the Stock 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 INEDs 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.

THE BOARD OF DIRECTORS *(Continued)*

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 may delegate the management powers to the management of the Company. However, the delegation of power does not absolve the Directors from their responsibilities of exercising requisite skill, care and diligence in overseeing the performance of the Company. The Board can meet the management of the Company from time to time to discuss the operating issues of the Group.

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 ("Mr. Chong") 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.

Appointments, 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.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT *(Continued)*

During the year ended 31 December 2016 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, 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. 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 INEDs. 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 uploaded on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk under the "Latest Listed Company Information" and the website of the Company at www.autoitalia.com.hk. 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 to review the financial reporting process, internal control and risk management systems of the Group and to provide advices and comments to the Board.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

During the year of 2016, 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 2016; reviewed the audited accounts and final results announcement for the years 2015 and 2016; reviewed the interim report and the interim results announcement for the six months ended 30 June 2016; 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.

Remuneration Committee

The members of the Remuneration Committee comprise Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie and Mr. LEE Ben Tiong Leong, all of whom are INEDs, 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 2016, the Remuneration Committee had fixed the schedule of INEDs' fee; and made recommendations to the Board in relation to the Director's fee of the new INED.

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 INEDs. 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 website of 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 COMMITTEES *(Continued)*

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 2016. The attendances of individual Director at these Board meetings and Board Committees' meetings held in 2016 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
Executive Directors:				
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
INEDs:				
Dr. SANTOS Antonio Maria	4/4	2/2	1/1	1/1
Mr. KONG Kai Chuen Frankie	4/4	2/2	1/1	1/1
Mr. LEE Ben Tiong Leong	4/4	2/2	1/1	1/1

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 2016, 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 49 to 54 of this Report.

During the year of 2016, the Auditor had performed audit and non-audit services and their remuneration in respect of audit and non-audit services in relation to US tax advisory, the environmental, social and governance report and interim report review is HK$1,480,000 and HK$989,000 respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage it risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the Risk Management Taskforce ("RMTF"). The Board of Directors determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Regular Members of RMTF comprises respective division and department heads. Its duties include:

- To assist the Board of Directors and the Audit Committee in overseeing the risk management system, ensuring that the risk management culture is fostered and system is implemented effectively in the daily operations and to arbitrate risk management policies that have conflicts between functional divisions.

- To oversee the risk management program and assess the program processes and make decisions on risk management issues escalated to it including:

  - To ensure the Group commits sufficient resources in carrying out the risk management exercise and to ensure risk profiles updates are carried out annually and in a timely manner in accordance with the guidelines and requirements laid down in the Risk Management Policy of the Group as approved by the Board.

  - To review the risk assessment criteria and update the risk inventory, risk ranking and risk mitigation plan for the submission to the Audit Committee and the Board of Directors annually.

  - To maintain an oversight of the Group's Risk Management System, Framework and Program and propose enhancement(s) needed, including those to fulfill the regulators or governance bodies' statutory requirements, to the Board for approval at least annually.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. On an annual basis, the RMTF identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

In addition, the Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. During the year, the Company has arranged the independent professional advisor to perform enterprise risk management advisory services report, identifying areas on improvement of operational procedures. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board of Directors once a year. The Board of Directors had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. The Company also implements an internal policy on handling inside information which is consistent with the relevant applicable requirements of the Listing Rules. The policy sets out measures and procedures for the Directors and other relevant officers of the Company to assume duty when dealing with inside information and preservation of its confidentiality before proper disclosure it also sets out guidelines for the Board to disclose any material inside information timely according to the relevant statutory and regulatory requirements. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

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

The Company held one general meeting in 2016. The attendance of individual Director at the general meeting held in 2016 is set out in the table below:

Name of Directors	Number of general meetings attended/held
Executive Directors:	
Mr. CHONG Tin Lung Benny	1/1
Mr. LAM Chi Yan	1/1
INEDs:	
Dr. SANTOS Antonio Maria	1/1
Mr. KONG Kai Chuen Frankie	1/1
Mr. LEE Ben Tiong Leong	1/1

Pursuant to Code Provision E.1.2 of the CG Code, the Company invited representatives of the Auditors to attend the annual general meeting of the Company convened on 20 May 2016 to answer Shareholders' questions about the conduct of the audit, the preparation and content of the Auditors' report, the accounting policies and auditor independence.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

Shareholders' Right

Shareholders may make a requisition to the Board to convene a special general meeting ("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.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

Shareholders' Right *(Continued)*

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.

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

(a) 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

(b) 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.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

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 2016. A copy of the latest version of the Memorandum of Association and Bye-laws is available on the websites of the Stock Exchange and the Company.

Voting by Poll

The Company informed Shareholders of the procedures for demanding a poll by incorporating them in any circular for an annual general meeting and special general meetings, 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 annual general meeting.

COMPANY SECRETARY

Mr. WONG Yat Tung has been appointed as the Company Secretary of the Company with effect from 1 April 2016. He is a manager of SW Corporate Services Group Limited and has more than nine years of extensive experience in providing company secretarial services to private and listed companies. Mr. Wong is an Associate of The Hong Kong Institute of Chartered Secretaries and an Associate of The Institute of Chartered Secretaries and Administrators. He had undertaken no less than 15 hours of relevant profession training during the year ended 31 December 2016. His contact person at the Company is Mr. CHONG Ting Lung Benny, Executive Director, Executive Chairman and Chief Executive Officer of the Company.

Environmental, Social and Governance Report

In accordance with Appendix 27 – Environmental, Social and Governance Reporting Guide of the Main Board Listing Rules (the "Listing Rules") issued by the Hong Kong Exchange and Clearing Limited ("HKEx"), Auto Italia Holdings Limited and its subsidiaries (collectively referred to as the "Group", "We", "Our" and "Us") present this Environmental, Social and Governance ("ESG") Report for the year ended 31 December 2016 ("Reporting Period").

This report serves to provide details of the Group's ESG policies of its cars and accessories trading, and car repairing services businesses in Hong Kong, which is the key operating segment of the Group.

We have established the ESG reporting taskforce, which includes the department heads of various functions. The Board of Directors has the overall responsibility for the Group's ESG strategy and reporting in achieving green operations for sustainable development. The Management is responsible for monitoring and managing ESG-related risks and the effectiveness of the ESG management systems.

In order to determine the ESG reporting scopes, we have engaged and discussed with various management personnel and other internal key stakeholders to perform materiality assessment for identifying material ESG issues relevant to the Group's operation. The summary of material ESG issues of the Group is listed below:

ESG aspects as set out in ESG Guide		Material ESG issues for the Group
A. Environmental	*A1 Emissions*	• Waste Management
	A2 Use of Resources	• Resources Conservation
	A3 The Environment and Natural Resources	• Other Significant Environmental Impacts
B. Social Employment and Labour Practices	*B1 Employment*	• Employment Practices
	B2 Health and Safety	• Workplace Health and Safety
	B3 Development and Training	• Staff Training
	B4 Labour Standards	• Anti-Child and Forced Labour
	B5 Supply Chain Management	• Supplier Practices
	B6 Product Responsibility	• Products and Services Responsibility • Customer Services • Data Privacy
	B7 Anti-corruption	• Anti-Corruption and Money Laundering
	B8 Community Investment	• Community Engagement • Awards

(A) ENVIRONMENT

Aspect A1:

Being the exclusive dealer of world-class premium auto brands in Hong Kong and Macau, the Group aims at delivering cars of supreme quality to consumers to satisfy their needs and enjoyment. Good environment attributes to the enjoyment of driving. As part of our aim, we strive to reducing the impact we brought to the environment through adoption of green business practices with minimal pollution to the environment.

Since the Group is principally engaged in cars and accessories trading, as well as car repairing services, there are no significant air emissions and water effluent. The major pollutants are wastes generated from daily operations such as office administration and car repairing and maintenance.

Our Group is committed to complying with all environmental laws and regulations in support of environmental protection. During the Reporting Period, no cases of non-compliance against environmental laws and regulations were noted.

Waste Management

Our Group upholds the principles of waste management so as to minimise waste generated and is committed to the proper handling and disposal of all wastes. All waste handling practices shall comply with the relevant regulations and shall have no harmful effect on the environment and human health. Specifically, hazardous wastes from our operations are handled and processed by government approved licensed partners and these partners are evaluated by us on a regular basis.

The waste management policy of the Group applies the waste management principles of "reduce", "reuse", "recycle" and "replace" with an aim to reduce the negative environmental impacts of the wastes and ensure the disposal of waste materials in an environmentally responsible manner. We promote reuse and recycling practices in our operations. We encourage source separation and enable waste recycling to implement an effective waste management programme. Furthermore, we put much emphasis on enhancing general awareness of the importance of reducing waste generation and disposal through green procurement practices and administrative approaches.

(A) ENVIRONMENT *(Continued)*

Aspect A2:

Resources Conservation

Our Group conserves resources for environmental and operating efficiency purposes. The major resources used by the Group include electricity, fuel and other repair and maintenance consumables. To encourage participation by all level of staff, we have put much effort in integrating business performance with environmental and resources efficiency consideration. Performance based monitoring of the use of resources provides incentives for staff to execute and follow green practices.

We have implemented a number of environmentally friendly measures to control our use of resources in our operations and workplaces. We also monitor closely technology advancements in the machinery, systems and infrastructures that we use to achieve better resources efficiency. These measures assist the reduction of resources consumption comprehensively from source to end-use, thereby creating both environmental and financial benefits to the Group.

The ESG reporting taskforce continues to broaden the scope of our green agenda and identify energy improvement opportunities in order to uphold our sustainable development and care for the environment attitude in the workplace.

Aspect A3:

Other Significant Environmental Impacts

In addition to the above-mentioned environmental impacts, other negative impacts to the environment and natural resources have been taken into account in making investment decisions and future development plan. While minor impacts such as light pollution from showrooms' advertising signs and noise pollution from the workshops may exist, we deployed proper design, equipment and other measures to further reduce the environmental impacts.

In order to protect the environment and the nature, we monitor environmental risks relating to our business operations on a regular basis. Periodic evaluations are performed to identify negative environmental impacts. Based on such evaluations, preventive measures are implemented to mitigate the environmental risks and to ensure the Group's compliance with relevant laws and regulations.

(B) SOCIAL

Aspect B1:

Employment Practices

Our 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 talents.

We have developed the Human Resources Policy to govern the recruitment, dismissal, promotion, discipline, working hours, leaves and other benefits of our employees, in accordance with relevant laws and regulations.

The level of compensation of the Group's employees is reviewed annually on a performance basis with reference to the market standards. A wide range of benefits including comprehensive medical and life insurance, and mandatory provident fund are also provided to employees. We also place heavy emphasis on training and development opportunities as well social activities to all our employees.

Meanwhile, our Group respects cultural and individual diversity. We believe that no one should be treated less favourably on his or her personal characteristics (such as gender, pregnancy, marital status, disability, family status, and race). We emphasise equal employment and career development opportunities to all qualified employees.

As a responsible employer, we are committed to complying with all local labour laws. During the Reporting Period, no cases of non-compliance with employment related laws and regulations were noted.

Aspect B2:

Workplace Health and Safety

Health and safety standards are our Group's priority in conducting the business. We are committed to providing a safe workplace for our employees, and all other people likely to be affected by our operations and activities.

Appropriate training, evacuation exercise, as well as protective equipment in relation to occupational health and safety hazards in accordance with the applicable laws and other related requirements are provided to our employees at offices and workshops. Occupational safety guidelines are updated and communicated to all staff regularly to keep them abreast of the most recent safety standards and practices.

During the Reporting Period, neither workplace accidents nor non-compliances against occupational health and safety related regulations were noted.

(B) SOCIAL *(Continued)*

Aspect B3:

Staff Training

The Group acknowledges the importance for our staff to be well prepared in order to cater the needs of our customers. Therefore, we encourage and support our employees in personal and professional training.

A series of training programmes including in-house training, seminars, workshops, regular sharing sessions and on-the-job coaching are provided to our staff on a regular basis. We believe that these could help enhance the staff's competencies in performing their jobs. As for external training, policy on reimbursement of tuition, seminar or workshop fees has been established and implemented to support our staff's pursuit of professional training.

In addition to training support offered by the Group, our principal's headquarter has a dedicated training centre for dealer staff which includes not only product training, but also client management training such as customer relationship management and mystery shopper. Furthermore, an online platform called the learning management system has been adopted to provide virtual training for all qualified staff.

Aspect B4:

Anti-Child and Forced Labour

The Group prohibits child and forced labour of any kind in our operations and services. Internal controls such as background check are performed on every candidate by our Human Resources Department during the recruitment process to ensure no child and forced labour are hired.

During the Reporting Period, no cases of non-compliance with child and forced labour-related laws and regulations were noted.

Aspect B5:

Supplier Practices

Our suppliers are well-known luxury auto makers with refined craftsmanship. Their products adhere to a high production standards and therefore have gained high reputation for their exceptional quality. Furthermore, the local suppliers used by the Group are required to comply with the auto makers' quality standards in order to fulfil the dealership responsibilities. These guarantee the quality of our products.

(B) SOCIAL *(Continued)*

Aspect B6:

Products and Services Responsibility

Our Group is responsible for its products and services and emphasizes on sales ethics. The Group does not engage in unfair business activities of any kind. Our selling and service delivering processes ensure information regarding products and services are clear and open.

Our Group has also complied with relevant product and service related regulations, such as the Trade Description Ordinance of Hong Kong. Fraud, misleading information, or any acts that destroy customer confidence or infringe customer rights are strictly prohibited.

Customer Services

Our Group is committed to provide the best quality of service to our customer. We strict adhere to the service guidelines as set out by the auto makers with stringent and routine audits are conducted by the auto makers to ensure compliance.

To obtain customer feedbacks, we have established a Customer Satisfaction Survey to review the sales progress, including both showroom and salesmen's service. Customers are welcome to provide comments and to score our service from the survey. The results are reported to management for performance assessment and commission adjustment. Customers' complaints are investigated by various management personnel in solving the problem in service quality. Respective improvement measures will be designed to mitigate future occurrence of undesired service delivery.

Furthermore, our product managers regularly provide product training to our sales and marketing team in order to keep them updated with the latest product information.

Data Privacy

The Group respects the data privacy of stakeholders, including staff, customers and suppliers. In order to implement appropriate measures in data protection, a privacy policy has been established to guide the principles of data privacy management. We strictly comply with the Personal Data (Privacy) Ordinance, which aims to protect the privacy right of a person in relation to personal data.

(B) SOCIAL *(Continued)*

Aspect B6: *(Continued)*

Data Privacy *(Continued)*
Data Protection Principles from the Ordinance are applied to our business operations. General principles which the Group has adopted include:

- Personal data are collected when we believe to be relevant and necessary

- Personal data are used only for the purpose for which data is collected unless prior consent has been obtained

- Transfer or disclose personal data to any entity that is not a member of the Group without consent is strictly prohibited unless it is required by law or it was previously notified

- Appropriate security systems and measures designed to prevent unauthorized access to personal data have been implemented

- Only designated personnel will be granted the access rights to personal data

During the Reporting Period, no cases of non-compliance with product and services, or data privacy-related laws and regulations were noted.

Aspect B7:

Anti-Corruption and Money Laundering
Our Group does not tolerate corruption, money-laundering and other fraudulent activities of any kind.

We have established the Staff Code of Conduct which stipulates the proper work ethics and practices and we require our staff to strictly follow the Code. Meanwhile, we have established whistle-blowing channel which serves as an anonymous communication channel for staff to report suspicious fraudulent actions to the Group's management directly. Review of the effectiveness of the internal control systems is also conducted on a regular basis to ensure sound internal controls in preventing malpractices.

During the Reporting Period, no cases of non-compliance with corruption and money laundering-related laws and regulations were noted.

(B) SOCIAL *(Continued)*

Aspect B8:

Community Engagement

In an effort of pursuing social commitment, we are dedicated to meeting the expectations of our stakeholders, including but not limited to shareholders, customers, business partners and employees. We aim at achieving mutually beneficial situation for all stakeholders through demonstrating our care for social well-being and fulfilling social responsibilities.

The Group is proactive in participating in community activities to play a part in contributing to the society. During the Reporting Period, the Group encouraged its staff to join several charity events:

- 2016 Charity Walk (in January 2016) organized by the Suicide Prevention Services

- 8.27 Flag Day (in August 2016) organized by the Youth Outreach

- Action for Love 2016 (in October 2016) organised by the Suicide Prevention Services

These events demonstrated our care for different members of the community, as well as promoted our advocates of social responsibility to raise staff's awareness, thereby magnifying the effect of community participation.

Awards

With our endeavours to support and fulfil corporate social responsibility, we were awarded the Caring Company Logo 2015/16 conferred by the Hong Kong Council of Social Service. The award serves to acknowledge companies' efforts in caring the community, employees and the environment. Furthermore, the Group was awarded the Social Caring Pledge Logo conferred by the Social Enterprise Research Institute for its continuous contribution in "Energy Conservation" and "Community Volunteers".

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF AUTO ITALIA HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

OPINION

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 55 to 141, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Inventories We identified valuation of inventories, in particular new and used cars, as a key audit matter due to the significant involvement in management's estimation. In case of adverse changes in economic environment, cars held by the Group may lose their value and may be required to be written down to their recoverable amounts. As at 31 December 2016, the carrying amount of inventories was HK$225,557,000 and no impairment loss was recognised in profit or loss during the year. Details of the Group's inventories are set out in note 18 to the consolidated financial statements.	Our procedures in relation to assess whether adequate provisions have been made against inventories included: • Obtaining an understanding of the key controls of the Group in relation to identification of slow-moving inventories and preparation of ageing analysis of inventories; • Attending physical inventory count in the Group's showrooms and warehouse and identifying any physically obsolete inventories, if any; • Testing the ageing analysis of the inventories, on a sample basis, to the source documents; • Discussing with the management and evaluating their assessment on the estimation of the net realisable value of inventories for those slow-moving inventories without/with little sales or movement during the year or subsequent to the end of the reporting period; and • Assessing the reasonableness, on a sample basis, of the estimation of the net realisable value of inventories with reference to the latest price list, the recent selling prices, movements, physical conditions, ageing analysis and subsequent sales of inventories.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and property, plant and equipment	
We identified the impairment of goodwill and property, plant and equipment as a key audit matter due to the high estimation uncertainty arising from the termination of the Group's import and distribution rights of "Ferrari" cars in Hong Kong and Macau (the "Termination"), the segment loss in relation to the trading of cars and related accessories and provision of car repairing services and the management's judgment involved in the impairment review process. The sale of new "Ferrari" cars contributed to approximately 45% and 36% of the Group's consolidated revenue for the years ended 31 December 2016 and 2015 respectively. As mentioned in note 4 to the consolidated financial statements, the Group and Ferrari S.p.A. have signed an agreement in principle, the terms of which are set out in a non-legally binding term sheet (the "Term Sheet") for handling the transition of the Termination. The Term Sheet includes the transfer of the assets relevant to the "Ferrari" brand, including property, plant and equipment which mainly comprised leasehold improvements at the "Ferrari" showroom and warehouse. However if the Group is unable to reach agreement with Ferrari S.p.A. and conclude a formal agreement to transfer the property, plant and equipment on terms substantially the same as those set out in the Term Sheet, the recoverable amounts of the relevant property, plant and equipment may be lower than their carrying values, which may lead to impairment of relevant property, plant and equipment. The Termination therefore gave rise to a material uncertainty in respect of the valuation of property, plant and equipment. With respect to the impairment assessment of goodwill allocated to the cash generating unit which includes the trading of cars and related accessories and provision of car repairing services, the management of the Company has prepared a value-in-use calculation which is based on assumptions including future growth and discount rates as set out in note 16 to the consolidated financial statements. As at 31 December 2016, the carrying amount of goodwill and property, plant and equipment amount were HK$2,480,000 and HK$53,852,000 respectively. No impairment loss was recognised in profit or loss during the year.	Our procedures in relation to the impairment of goodwill and property, plant and equipment included: • Obtaining the Term Sheet from the management and understanding the agreed transitional arrangement in respect of the Termination; • Performing an assessment of management's evaluation of the likelihood of the formal agreement being signed with Ferrari S.p.A, by discussing the current status of the negotiations with management and obtaining the communication between the Group and Ferrari S.p.A. about the Termination; • Obtaining an understanding of the key controls over the management's impairment assessment process; • Assessing the value-in-use calculation used by the management; • Comparing key assumptions (including discount rates and growth rates) used in the value-in-use calculation to industry and market data, historical performance and the future outlook, taking into account the cessation of the "Ferrari" dealerships; • Testing the inputs in the value in use calculation against source documents; and • Evaluating the sensitivity analysis on key assumptions, including discount rates adopted.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Hung Suk Fan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	NOTES	**2016** **HK$'000**	2015 HK$'000
Revenue	6	**742,484**	973,140
Cost of sales		**(552,936)**	(720,329)
Gross profit		**189,548**	252,811
Other income	7	**26,302**	22,710
Other gains and losses	8	**(8,424)**	(8,318)
Selling and distribution costs		**(136,726)**	(143,081)
Administrative expenses		**(74,447)**	(83,725)
Finance costs	9	**(3,020)**	(3,038)
(Loss) profit before taxation		**(6,767)**	37,359
Taxation	10	**(5,608)**	(9,603)
(Loss) profit for the year	11	**(12,375)**	27,756
(Loss) earnings per share	13		
– Basic		**(HK0.24 cent)**	HK0.53 cent
– Diluted		**(HK0.24 cent)**	HK0.53 cent

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
(Loss) profit for the year	**(12,375)**	27,756
Other comprehensive income:		
Item that will not be reclassified to profit or loss:		
Gain on property revaluation upon transfer to investment properties	**3,626**	–
Item that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	**232**	835
Other comprehensive income for the year	**3,858**	835
Total comprehensive (expense) income for the year attributable to owners of the Company	**(8,517)**	28,591

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Investment properties	14	**47,700**	–
Property, plant and equipment	15	**53,852**	108,403
Goodwill	16	**2,480**	2,480
Rental deposits		**16,314**	14,094
Investment in preference shares	17	**37,279**	–
		157,625	124,977
Current assets			
Inventories	18	**225,557**	200,457
Tax recoverables		**–**	1,956
Trade and other receivables	19	**93,401**	78,450
Loan receivables	20	**57,000**	76,000
Investments in convertible bonds	21	**–**	26,772
Pledged bank deposits	22	**46,828**	59,655
Bank balances and cash	22	**248,839**	207,611
		671,625	650,901
Current liabilities			
Trade and other payables	23	**331,264**	252,943
Tax payable		**7,483**	7,695
Bank and other borrowings	24	**85,675**	105,532
Obligations under finance leases	25	**–**	74
		424,422	366,244
Net current assets		**247,203**	284,657
Total assets less current liabilities		**404,828**	409,634

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	**2016** **HK$'000**	2015 HK$'000
Capital and reserves			
Share capital	26	**104,391**	104,079
Reserves		**294,365**	298,221
Total equity		**398,756**	402,300
Non-current liabilities			
Bank and other borrowings	24	**4,905**	6,610
Deferred taxation	27	**1,167**	724
		6,072	7,334
		404,828	409,634

The consolidated financial statements on pages 49 to 141 were approved and authorised for issue by the board of directors on 28 March 2017 and are signed on its behalf by:

CHONG Tin Lung Benny
DIRECTOR

LAM Chi Yan
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Translation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	103,784	241,623	2,151	2,519	15,620	72	166,431	(173,104)	359,096
Profit for the year	–	–	–	–	–	–	–	27,756	27,756
Other comprehensive income for the year	–	–	–	–	–	835	–	–	835
Total comprehensive income for the year	–	–	–	–	–	835	–	27,756	28,591
Recognition of equity settled share-based payments	–	–	–	11,895	–	–	–	–	11,895
Issue of new shares upon exercise of share options	295	3,757	–	(1,334)	–	–	–	–	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**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,375)**	**(12,375)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**3,626**	**232**	**–**	**–**	**3,858**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**3,626**	**232**	**–**	**(12,375)**	**(8,517)**
Recognition of equity settled share-based payments	**–**	**–**	**–**	**2,104**	**–**	**–**	**–**	**–**	**2,104**
Issue of new shares upon exercise of share options	**312**	**3,965**	**–**	**(1,408)**	**–**	**–**	**–**	**–**	**2,869**
Transfer upon lapse of share options	**–**	**–**	**–**	**(1,634)**	**–**	**–**	**–**	**1,634**	**–**
At 31 December 2016	**104,391**	**249,345**	**2,151**	**12,128**	**19,246**	**1,139**	**166,431**	**(156,075)**	**398,756**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(6,767)**	37,359
Adjustments for:		
(Reversal of) impairment losses on trade and other receivables, net	**(628)**	801
Reversal of allowance for inventories	**–**	(2,941)
Depreciation of property, plant and equipment	**22,320**	21,910
Dividend income	**–**	(8,473)
Interest income	**(424)**	(661)
Interest expenses	**3,020**	3,038
Effective interest income from investments in convertible bonds	**(4,760)**	(783)
Gain on fair value change of investment properties	**(800)**	–
Loss (gain) on fair value change of derivative component of investments in convertible bonds	**5,282**	(818)
(Gain) loss on disposal of property, plant and equipment	**(414)**	1,166
Share-based payments	**2,104**	11,895
Operating cash flows before movements in working capital	**18,933**	62,493
Increase in inventories	**(25,100)**	(58,946)
(Increase) decrease in trade and other receivables	**(16,543)**	22,630
Decrease in loan receivables	**19,000**	3,270
Increase (decrease) in trade and other payables	**79,699**	(55,554)
Net cash from (used in) operations	**75,989**	(26,107)
Income tax paid	**(3,421)**	(5,640)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**72,568**	(31,747)
INVESTING ACTIVITIES		
Dividend received	**–**	8,473
Interest received	**1,674**	661
Purchase of property, plant and equipment	**(14,654)**	(37,224)
Additions to investment properties	**(100)**	–
Proceeds from disposal of property, plant and equipment	**2,722**	3,505
Placement of pledged bank deposits	**(33,239)**	(16,354)
Withdrawal of pledged bank deposits	**47,628**	16,981
Subscription of convertible bonds	**–**	(25,000)
Redemption of convertible bonds	**25,000**	–
Investment in preference shares	**(37,279)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(8,248)**	(48,958)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
FINANCING ACTIVITIES		
Interest paid	**(3,014)**	(3,027)
Bank and other borrowings raised	**366,456**	516,023
Repayment of bank and other borrowings	**(388,018)**	(496,465)
Repayment under finance leases	**(74)**	(149)
Interest paid on finance leases	**(6)**	(11)
Proceeds from exercise of share options	**2,869**	2,718
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(21,787)**	19,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**42,533**	(61,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**207,611**	269,915
Effect of exchange rate changes	**(1,305)**	(688)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**248,839**	207,611

Note:

Interest received included in operating activities	**5,514**	11,925

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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. During current and prior year, 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 AMENDMENTS TO 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 HKFRSs that are mandatorily effective for the current year

Amendments to HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

Except as described below, the application of these 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 financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Amendments to HKAS 1 "Disclosure initiative"

The Group has applied the amendments to HKAS 1 "Disclosure initiative" for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. Hence, the grouping and ordering of certain notes has been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to financial instruments and capital risk management was reordered to notes 35 and 36. Other than the above presentation changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Apply HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirement for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group:

- all recognised financial assets that are within the scope of HKFRS 9 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 fair value through other comprehensive income. 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 9 "Financial instruments" *(Continued)*

- 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's investment in preference shares including those currently stated at cost less impairment, will be measured as fair value through profit or loss. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 15 "Revenue from contracts with customers" *(Continued)*

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods based on the existing business model of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 "Leases" *(Continued)*

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group as lessee has non-cancellable operating lease commitments of HK$109,218,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company do not anticipate that the application of the other new and amendments to 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 and by the Hong Kong Companies Ordinance.

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".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 2016

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, 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 2016

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, discounts and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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.

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 accumulated losses.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 'loss/profit 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss.

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 28 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to employees *(Continued)*
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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL (Continued)

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 35.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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.

Investment in preference shares

Where an embedded derivative that is required to be separated cannot be reliably measured because it will be settled by an unquoted equity instrument whose fair value cannot be reliably measured, the entire combined contract is treated as a financial instrument held for trading. Where the equity component of the combined instrument is sufficiently significant to preclude it from obtaining a reliable estimate of the entire instrument, the combined instrument is measured at cost plus accrued interest less impairment.

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 instruments *(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.

Impairment loss for loans and receivables are assessed on an individual basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(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.

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.

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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, 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. 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.

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.

Impairment of goodwill and property, plant and equipment

On 29 November 2016, the Group received an advice (the "Termination Advice") from Ferrari S.p.A. to terminate the import and distribution rights of "Ferrari" cars in Hong Kong and Macau with effect from 27 May 2017 (the "Termination"). As the sales of new "Ferrari" cars contributed to approximately 45% and 36% of the Group's consolidated revenue for the years ended 31 December 2016 and 2015 respectively, the cessation of dealership of "Ferrari" may result in an impairment of property, plant and equipment.

Subsequent to the receipt of the Termination Advice, the Group and Ferrari S.p.A. entered into an agreement in principle, the terms of which are set out in a non-legally binding term sheet (the "Term Sheet"), for handling the transition of the Termination on 10 March 2017. The Term Sheet set out the handover arrangements relating to the current principal operating premises, "Ferrari" inventories held by the Group (including new cars and spare parts), existing "Ferrari" vehicle orders received by the Group, continuation of limited scope pre-delivery inspection and aftersales services. Based on the long term relationship with Ferrari S.p.A. and the latest communication with them, the management of the Company expects to be able to enter into a formal agreement with Ferrari S.p.A. on terms substantially the same as those set out in the Term Sheet in foreseeable future. If the Group is unable to reach agreement with Ferrari S.p.A. and conclude a formal agreement to transfer the relevant property, plant and equipment on terms substantially the same as those set out in the Term Sheet, impairment may be required. As at 31 December 2016, the carrying amount of property, plant and equipment is HK$53,852,000 (2015: HK$108,403,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of goodwill and property, plant and equipment *(Continued)*

Determining whether the goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which the goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. When the actual future cash flows are less than expected or change in facts and circumstances which results in downward revision of future cash, an impairment may arise. As at 31 December 2016, the carrying amount of goodwill is HK$2,480,000 (2015: HK$2,480,000).

Allowance for inventories

The management of the Group reviews an ageing 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 inventories on a product-by-product basis with reference to the recent selling prices, movements, physical conditions, ageing analysis and subsequent sales of inventories, 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 2016, the carrying amount of inventories is HK$225,557,000 (2015: HK$200,457,000), whereas the reversal of allowance for inventories recognised during the year ended 31 December 2016 is HK$2,729,000 (2015: HK$2,941,000).

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 2016, the carrying amount of trade and other receivables and loan receivables were HK$93,401,000 (2015: HK$78,450,000) and HK$57,000,000 (2015: HK$76,000,000) respectively, whereas the reversal of impairment loss recognised on trade and other receivables is HK$628,000 (2015: impairment loss of HK$801,000) and nil (2015: nil) respectively during the year ended 31 December 2016.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Fair value of investment properties

As described in note 14, investment properties are measured at fair value at the end of reporting period using income approach by independent professional valuer. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In relying on the valuation report, the directors of the Company have exercised their judgment and are satisfied that the assumptions used in the valuation reflect market condition. Where there are any changes in the assumptions due to the market conditions, the estimate of fair value of investment properties may be significantly affected. As at 31 December 2016, the carrying amount of investment properties is HK$47,700,000 (2015: nil).

5. 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 and provision for financing and corporate finance services; and

(iii) Property investment.

Segment profit/loss 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.

5. 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 2016

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE				
Group's revenue	**735,910**	**5,514**	**1,060**	**742,484**
SEGMENT RESULTS				
Segment (loss) profit	**(5,197)**	**4,264**	**1,541**	**608**
Interest income				**424**
Unallocated corporate expenses				**(4,779)**
Finance costs				**(3,020)**
Loss before taxation				**(6,767)**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2015

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE				
Group's revenue	955,615	17,525	–	973,140
SEGMENT RESULTS				
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

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

At 31 December 2016

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets				
Segment assets	390,433	94,575	48,129	533,137
Bank balances and cash				248,839
Pledged bank deposits				46,828
Unallocated corporate assets				446
Consolidated assets				829,250
Liabilities				
Segment liabilities	325,230	82	616	325,928
Bank and other borrowings				90,580
Deferred taxation				1,167
Tax payable				7,483
Unallocated corporate liabilities				5,336
Consolidated liabilities				430,494

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

At 31 December 2015

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets				
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
Liabilities				
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, deferred taxation, tax payable, and bank and other borrowings.

5. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2016

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment result or segment assets					
Addition of property, plant and equipment	13,276	–	–	–	13,276
Depreciation of property, plant and equipment	(22,041)	–	–	(279)	(22,320)
Gain on disposal of property, plant and equipment	414	–	–	–	414
Fair value gain on investment properties	–	–	800	–	800
Reversal of allowance for inventories – Hong Kong	2,729	–	–	–	2,729
Loss on fair value change of derivative component of investments in convertible bonds	–	(5,282)	–	–	(5,282)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2015

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment result or segment assets					
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
Gain of fair value change of derivative component of investments in convertible bonds	–	818	–	–	818

Information about major customers

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

5. 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:

	2016	2015
	HK$'000	HK$'000
Hong Kong	**664,678**	869,971
Mainland China	**77,806**	103,169
	742,484	973,140

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

	2016	2015
	HK$'000	HK$'000
Hong Kong	**117,119**	124,104
Mainland China	**3,227**	873
	120,346	124,977

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. REVENUE

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

	2016 HK$'000	2015 HK$'000
Sales of goods to customers, less returns and discounts	**530,331**	730,404
Maintenance service income	**205,579**	225,211
Financial service income	**–**	5,600
Interest income	**5,514**	11,925
Rental income	**1,060**	–
	742,484	973,140

7. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Commission income	**6,398**	5,668
Interest income	**424**	661
Effective interest income from investments in convertible bonds (note 21)	**4,760**	783
Dividend income	**–**	8,473
Forfeited deposits (Note)	**6,158**	–
Others	**8,562**	7,125
	26,302	22,710

Note: Forfeited deposits represent deposits paid by customers for ordering cars which were forfeited in accordance with the terms as set out in respective contracts.

8. OTHER GAINS AND LOSSES

	2016 **HK$'000**	2015 HK$'000
Reversal of (impairment) losses on trade and other receivables, net	**628**	(801)
Net foreign exchange losses	**(4,984)**	(7,169)
Gain (loss) on disposal of property, plant and equipment	**414**	(1,166)
(Loss) gain on fair value change of derivative component of investments in convertible bonds (note 21)	**(5,282)**	818
Fair value gain on investment properties	**800**	–
	(8,424)	(8,318)

9. FINANCE COSTS

	2016 **HK$'000**	2015 HK$'000
Interests on bank and other borrowings	**3,014**	3,027
Interest on finance leases	**6**	11
	3,020	3,038

10. TAXATION

	2016 **HK$'000**	2015 HK$'000
Current tax		
Hong Kong	**259**	4,475
Other jurisdictions	**4,710**	4,358
	4,969	8,833
Underprovision in prior years		
Other jurisdictions	**196**	46
Deferred tax (note 27)		
Current year	**443**	724
	5,608	9,603

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

10. TAXATION *(Continued)*

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 30%.

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

	2016 **HK$'000**	2015 HK$'000
(Loss) profit before taxation	**(6,767)**	37,359
Tax at the domestic income tax rate of 16.5% (Note)	**(1,117)**	6,164
Tax effect of expenses not deductible for tax purpose	**2,173**	2,159
Tax effect of income not taxable for tax purpose	**(2,773)**	(2,411)
Underprovision in respect of prior year	**196**	46
Tax effect of tax losses not recognised	**4,565**	849
Tax effect of deductible temporary differences not recognised	**323**	(226)
Deferred tax provided on undistributed earning of on PRC subsidiaries	**443**	724
Utilisation of tax losses previously not recognised	**(52)**	–
Effect of different tax rates of subsidiaries	**1,850**	2,298
Taxation for the year	**5,608**	9,603

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

11. (LOSS) PROFIT FOR THE YEAR

	2016	2015
	HK$'000	HK$'000
(Loss) profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,480**	1,500
Depreciation of property, plant and equipment	**22,320**	21,910
Staff costs:		
Directors' emoluments	**6,682**	10,139
Salaries and allowances	**65,931**	67,099
Share-based payments	**710**	7,700
Retirement benefits scheme contributions	**2,455**	2,488
	75,778	87,426
Cost of inventories recognised as expense	**519,971**	687,653
Reversal of allowance for inventories (included in cost of inventories) (Note)	**(2,729)**	(2,941)
Operating lease payments in respect of rented properties	**63,041**	60,523
Gross rental income from investment properties	**1,060**	–

Note: The reversal of allowance for inventories for both years is resulted from the subsequent sale of the relevant inventories.

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12. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

The emoluments paid or payable to each of five (2015: six) directors and the chief executive, were as follows:

		Other emoluments				
	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Performance related incentive payments HK$'000 (Note iv)	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
2016						
Executive Directors						
Chong Tin Lung Benny	–	2,016	1,025	–	18	3,059
Lam Chi Yan	–	1,979	369	753	18	3,119
Independent Non-executive Directors ("INED"s)						
Antonio Maria Santos	180	–	–	–	–	180
Kong Kai Chuen Frankie (Note iii)	180	–	–	–	–	180
Lee Tiong Leong Ben (Note ii)	180	–	–	–	–	180
	540	3,995	1,394	753	36	6,718

12. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS *(Continued)*

		Other emoluments				
	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Performance related incentive payments HK$'000 (Note iv)	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
2015						
Executive Directors						
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
Independent Non-executive Directors ("INED"s)						
Antonio Maria Santos	180	–	68	–	–	248
Kong Kai Chuen Frankie (Note iii)	180	–	68	–	–	248
Lee Tiong Leong Ben (Note ii)	151	–	–	–	–	151
	582	3,921	4,195	1,441	40	10,179

Notes:

(i) The director resigned on 17 October 2015.

(ii) The director appointed on 27 February 2015.

(iii) Kong To Yeung Frankie changed his name to Kong Kai Chuen Frankie with effect from 3 March 2016.

(iv) Performance related incentive payments were determined by the remuneration committee having regard to the performance of directors and the Group's operating result.

12. DIRECTORS' AND CHIEF EXECUTIVE EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS *(Continued)*

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.

Of the five individuals with the highest emoluments in the Group, two (2015: two) were Directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (2015: three) individuals were as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries and other benefits	**4,737**	5,455
Performance related incentive payments	**241**	1,379
Share-based payments	**369**	2,394
Retirement benefits scheme contributions	**33**	45
	5,380	9,273

Their emoluments were within the following bands:

	2016 **Number of** **employees**	2015 Number of employees
HK$1,500,000 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	2
HK$3,000,001 to HK$4,000,000	**–**	1
	3	3

During 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.

13. (LOSS) EARNINGS PER SHARE

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

	2016 **HK$'000**	2015 HK$'000
(Loss) profit for the year for the purpose of basic and diluted (loss) earnings per share	**(12,375)**	27,756

	2016 **Number of shares**	2015 Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	**5,215,792,775**	5,191,504,949
Effect of dilutive potential ordinary shares		
Share options	**–**	78,339,718
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**5,215,792,775**	5,269,844,667

For the year ended 31 December 2016, the computation of diluted loss per share does not assume the exercise of the share options granted since their exercise would result in a decrease in loss per share.

14. INVESTMENT PROPERTIES

	HK$'000
At 1 January 2015 and 31 December 2015	–
Transfer from property, plant and equipment	46,800
Additions	100
Fair value gain on investment properties	800
At 31 December 2016	47,700

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 comprised industrial buildings and carparks located in Hong Kong, held under medium-term leases.

14. INVESTMENT PROPERTIES *(Continued)*

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 determining the fair value of the relevant properties, the accounting officers will work closely with the independent qualified valuer to determine the appropriate valuation techniques and inputs for fair value measurements.

The Group engages third party qualified valuer to perform the valuation. The accounting officers work closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model. The accounting officers report the findings to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of the investment properties at the date of transfer and as at 31 December 2016 was under Level 3 of fair value hierarchy and based on the valuer's 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 9.03%. A decrease in this adjustment would result in an increase in fair value measurement of the investment properties and vice versa. There were no transfers into or out of Level 3 during the year.

The investment properties are pledged to secure certain bank borrowings granted to the Group as set out in note 31.

15. 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
Cost						
At 1 January 2015	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
Exchange adjustments	–	(133)	(44)	(30)	(10)	(217)
Additions	–	660	1,324	966	10,326	13,276
Transfer to investment properties (note 14)	(44,700)	–	–	–	–	(44,700)
Disposals/write-off	–	–	–	–	(3,509)	(3,509)
At 31 December 2016	–	101,412	19,106	26,657	26,477	173,652
Depreciation						
At 1 January 2015	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
Exchange adjustments	–	(135)	(33)	(20)	(4)	(192)
Provided for the year	279	12,759	1,282	2,005	5,995	22,320
Transfer to investment properties (note 14)	(1,526)	–	–	–	–	(1,526)
Eliminated on disposals/write-off	–	–	–	–	(1,201)	(1,201)
At 31 December 2016	–	71,195	15,372	23,377	9,856	119,800
Carrying values						
At 31 December 2016	–	30,217	3,734	3,280	16,621	53,852
At 31 December 2015	43,453	42,314	3,703	4,329	14,604	108,403

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15. 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 $2^1/_2$%
Leasehold improvements	Shorter of lease terms or 20%
Machinery and tools	20% – $33^1/_3$%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	20% – 25%

At 31 December 2016, property, plant and equipment with an aggregate carrying amount of HK$10,691,000 (2015: HK$43,453,000) are pledged to secure certain bank borrowings granted to the Group as set out in note 31.

The carrying value of property, plant and equipment in respect of assets held under finance leases was nil (2015: HK$62,000).

16. GOODWILL

	HK$'000
Cost	
At 1 January 2015, 31 December 2015 and 2016	2,788
Impairment	
At 1 January 2015, 31 December 2015 and 2016	(308)
Carrying values	
At 31 December 2015 and 2016	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 assessed the value in use of the relevant CGUs, which approximates the fair value less cost to sell. Management of the Group considered sales of cars represents a single CGU.

16. GOODWILL *(Continued)*

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 2016 and 2015, 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% (2015: 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 (2015: 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.

17. INVESTMENT IN PREFERENCE SHARES

On 1 August 2016, the Group entered into an agreement (the "Agreement") with an independent third party (the "Third Party") to acquire the Third Party's 15% beneficial interests in its investment in preference shares (the "Investment") of a private company (the "Investee") at a price of US$4,800,000 (equivalent to approximately HK$37,279,000), representing less than 1% of the preference shares of the Investee.

The Investment could be redeemed at the discretion of the Third Party from and after the fifth anniversary of issue date and redemption price includes dividend declared but unpaid, the purchase price of shares and interest of 8% per annum. The Investment also contains conversion options to convert the shares into ordinary shares of the Investee. Pursuant to the Agreement, the Investment could be assigned or transferred on mutual agreement with the Third Party.

The Investment is initially measured at transaction price, which is also the fair value resulted from arm's length market transaction. At initial recognition, the entire hybrid instrument is treated as financial instrument held for trading as the management of the Company considers the fair value of the conversion option which will be settled by unquoted instrument cannot be reliably measured. The Investment is subsequently measured at cost plus accrued interest less impairment as the conversion option of the hybrid instrument is sufficiently significant to preclude the Group from obtaining a reliable estimate of the entire instrument.

The management of the Company is not expecting the Investment to be recovered by redemption or conversion to ordinary shares within one year from the end of the reporting period, and is accordingly classified as non-current.

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18. INVENTORIES

	2016 HK$'000	2015 HK$'000
Finished goods	**204,058**	172,055
Spare parts	**21,499**	28,402
	225,557	200,457

Included in the above figures are finished goods of HK$31,092,000 (2015: HK$16,141,000) which have been pledged as security for bank borrowings (note 31).

19. TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**35,997**	49,809
Less: Allowance for doubtful debts	**–**	(641)
	35,997	49,168
Purchase deposits	**43,837**	18,388
Utility and rental deposits	**2,246**	2,036
Prepayments and other receivables	**11,321**	8,858
	93,401	78,450

19. 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:

	2016 **HK$'000**	2015 HK$'000
Within 30 days	**18,548**	35,428
31 to 60 days	**14,452**	10,349
61 to 90 days	**1,665**	419
91 days to 1 year	**1,210**	2,878
Over 1 year	**122**	94
	35,997	49,168

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

At 31 December 2016, included in the Group's trade receivable balances are receivables with aggregate carrying amounts of HK$1,332,000 (2015: HK$2,972,000) 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.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

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

	2016 HK$'000	2015 HK$'000
91 days to 1 year	**1,210**	2,878
Over 1 year	**122**	94
	1,332	2,972

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.

Movement in the allowance for doubtful debts

Trade receivables

	2016 HK$'000	2015 HK$'000
At 1 January	**641**	2,162
Impairment losses recognised in profit or loss	**–**	2,322
Impairment losses reversed	**(628)**	(1,521)
Amounts written off as uncollectible	**(13)**	(2,322)
At 31 December	**–**	641

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

	2016 HK$'000	2015 HK$'000
USD	**839**	–
EUR	**3,592**	777

20. LOAN RECEIVABLES

	2016	2015
	HK$'000	HK$'000
Fixed-rate loans	**57,000**	76,000

The outstanding loan receivables are due from independent third parties and carry interest rate of 8% per annum (2015: 8% per annum). The loans amounts of HK$26,000,000 and HK$31,000,000 were renewed and will be repaid in November 2017 and December 2017 (2015: HK$38,000,000 and HK$38,000,000 and repayable in November 2016 and December 2016) respectively. As at 31 December 2016, the balances were secured by listed securities in Hong Kong with fair values of HK$96,713,000 and HK$67,483,000 (2015: HK$61,600,000 and HK$61,600,000) respectively.

The Group has a policy for allowance of doubtful debts which is based on the evaluation of collectability and ageing 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 provision required.

The loan receivable of HK$31,000,000 is subsequently settled in February 2017.

21. INVESTMENTS IN CONVERTIBLE BONDS

On 12 November 2015, the Company subscribed convertible bonds ("CBs") issued by New Sports Group Limited ("New Sports Group") with coupon rate of 5% per annum payable on the date of redemption and in an aggregate principal amount of HK$25,000,000, with a maturity date of first anniversary of the issue date ("maturity date") and are denominated in HK$. The CBs entitle the bondholders to convert them into shares of New Sports Group at any time commencing from the 3 months after this 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.

21. 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:

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

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.

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.

The Group did not exercise the conversion right and the convertible bonds were fully repaid during the year ended 31 December 2016.

During the year ended 31 December 2016, the Group recognised fair value loss on the derivative component of investments in convertible bonds of HK$5,282,000 (2015: gain of HK$818,000) in other gains or losses and effective interest income of HK$4,760,000 (2015: HK$783,000) in other income respectively.

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 0.01% to 0.25% per annum (2015: 0.06% to 0.35% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$46,828,000 (2015: HK$59,655,000) have been pledged to secure short-term bank loans and undrawn short-term facilities and are therefore classified as current assets. The pledged bank deposits carry fixed interest rate of 0.01% to 1.20% per annum (2015: 0.01% to 1.50% per annum).

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

	2016 **HK$'000**	2015 HK$'000
USD	**34,978**	63,714
RMB	**22,404**	34,610
EUR	**4,390**	1,330

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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.

	2016 HK$'000	2015 HK$'000
Within 30 days	**41,142**	14,431
31 to 60 days	**1,173**	5,225
61 to 90 days	**38**	120
91 days to 1 year	**5,801**	949
Over 1 year	**530**	786
Trade and bills payables	**48,684**	21,511
Deposits received from customers	**234,505**	171,953
Advance payments from customers	**4,215**	8,040
Accrued charges	**17,307**	17,795
Other payables	**26,553**	33,644
	331,264	252,943

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

	2016 HK$'000	2015 HK$'000
USD	**39,948**	12,040
EUR	**1,830**	1,966

24. BANK AND OTHER BORROWINGS

	2016	2015
	HK$'000	HK$'000
Bank borrowings	**6,613**	8,295
Trust receipt loans	**53,156**	87,858
Other borrowings from restricted licensed banks	**20,811**	15,989
Other borrowings from a financial institution	**10,000**	–
	90,580	112,142
Secured	**90,580**	112,142
Carrying amount repayable:		
On demand or within one year	**85,675**	105,532
More than one year, but not exceeding two years	**1,750**	1,718
More than two years, but not more than five years	**3,155**	4,892
	90,580	112,142
Less: Amounts due within one year shown under current liabilities	**(85,675)**	(105,532)
Amounts shown under non-current liabilities	**4,905**	6,610

As at 31 December 2016, included in the carrying amount repayable within one year is a balance of HK$83,967,000 (2015: HK$103,846,000) that contains a repayable on demand clause.

As at 31 December 2016, the bank borrowings and other borrowings from restricted licensed banks are variable-rate borrowings which bear average effective interest rate (which is also equal to contracted interest rate) at 3.96% per annum (2015: 3.83% per annum). The other borrowings from a financial institution carry fixed interest rate of 20% per annum with maturity in January 2017.

The other borrowings from a financial institution of HK$10,000,000 is fully repaid by the Group subsequently in January 2017.

Details of the pledge of assets to secure the Group's banking facilities were set out in note 31.

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25. OBLIGATIONS UNDER FINANCE LEASES

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

The Group leased certain of its plant and machinery under finance leases with terms of 4 years (2015: 4 years). The average effective interest rates was 1.86% (2015: 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. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.02 each:		
Authorised:		
At 1 January 2015, 31 December 2015 and 2016	17,500,000,000	350,000
Issued and fully paid:		
At 1 January 2015	5,189,178,390	103,784
Issue of shares under options (Note i)	14,772,800	295
At 31 December 2015	5,203,951,190	104,079
Exercise of share options (Note ii)	15,590,000	312
At 31 December 2016	5,219,541,190	104,391

Notes:

(i) During the year ended 31 December 2015, the Company issued and alloted 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 option holders who exercised their share options.

(ii) During the year ended 31 December 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 option holders who exercised their share options.

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

27. DEFERRED TAXATION

As at 31 December 2016, deferred tax liabilities of HK$1,167,000 (2015: 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$195,222,000 (2015: HK$167,865,000) 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$27,747,000 (2015: HK$27,933,000) which will be expired in year 2021 (2015: year 2020). The other losses may be carried forward indefinitely.

27. DEFERRED TAXATION *(Continued)*

At the end of the reporting period, the Group has deductible temporary differences of HK$26,682,000 (2015: HK$24,724,000) 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.

28. SHARE OPTION SCHEME

A share option scheme (the "Option Scheme") was adopted pursuant to a resolution passed by the shareholders of the Company on 28 May 2012. The purpose of the Option 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 Option Scheme will expire on the 10th anniversary of the date of adoption. 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) eligible employees, including Directors; or

(2) suppliers or customers; or

(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).

28. SHARE OPTION SCHEME *(Continued)*

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 of the Company. 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 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 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 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, 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 2016, the number of shares in respect of which options had been granted and remained outstanding under the Option Scheme was 147,685,800 (2015: 192,490,200) representing 2.83% (2015: 3.70%) of the shares of the Company in issue at that date.

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28. SHARE OPTION 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 2016 and 2015:

Name or category of participants	Date of grant	Exercise price HK$	Exercisable period	As at 1 January 2016	Exercised during the year (Note 4)	Forfeited/ lapsed during the year (Note 5)	As at 31 December 2016	Exercisable at 31 December 2016
Directors								
Chong Tin Lung Benny	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	51,891,000	–	–	51,891,000	36,323,700
Mr. Lam Chi Yan	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	18,700,000	–	–	18,700,000	13,090,000
Dr. Santos Antonio Maria	16.10.2014	0.184	16.4.2015 to 15.4.2020 (Note 3)	1,500,000	–	–	1,500,000	1,500,000
Mr. Kong Kai Chuen Frankie (Note 6)	16.10.2014	0.184	16.4.2015 to 15.4.2020 (Note 3)	1,500,000	–	–	1,500,000	1,500,000
Employees in aggregate	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	56,282,200	(15,590,000)	(7,208,400)	33,483,800	16,573,820
	20.4.2015	0.351	20.4.2016 to 19.4.2021 (Note 2)	22,617,000	–	(22,006,000)	611,000	244,400
Other eligible participants	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	40,000,000	–	–	40,000,000	28,000,000
Total				192,490,200	(15,590,000)	(29,214,400)	147,685,800	
Weighted average exercise price				0.204	0.184	0.310	0.185	

28. SHARE OPTION SCHEME *(Continued)*

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 (Note 4)	Forfeited/ lapsed during the year (Note 5)	As at 31 December 2015	Exercisable at 31 December 2015
Directors									
Mr. Chong Tin Lung Benny	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	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 (Note 2)	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 (Note 2)	18,700,000	–	–	–	18,700,000	7,480,000
Dr. Santos Antonio Maria	16.10.2014	0.184	16.4.2015 to 15.4.2020 (Note 3)	1,500,000	–	–	–	1,500,000	1,500,000
Mr. Kong Kai Chuen Frankie (Note 6)	16.10.2014	0.184	16.4.2015 to 15.4.2020 (Note 3)	1,500,000	–	–	–	1,500,000	1,500,000
Employees in aggregate	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	68,783,000	–	(7,292,800)	(5,208,000)	56,282,200	18,137,200
	20.4.2015	0.351	20.4.2016 to 19.4.2021 (Note 2)	–	22,617,000	–	–	22,617,000	–
Other eligible participants	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	40,000,000	–	–	–	40,000,000	16,000,000
Total				201,074,000	22,617,000	(14,772,800)	(16,428,000)	192,490,200	
Weighted average exercise price				0.184	0.351	0.184	0.184	0.204	

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28. 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"):

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 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) In respect of the share options exercised during the year ended 31 December 2016, the weighted average share price immediately before the dates of exercise is HK$0.22 (2015: HK$0.400).

(5) The share options were forfeited or lapsed due to resignation of employees or director during the year.

(6) Mr. Kong To Yeung Frankie changed his name to Kong Kai Chuen Frankie with effect from 3 March 2016.

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 (2015: 14,772,800) share options were exercised during the year ended 31 December 2016. The estimated fair value of the options granted on 16 October 2014 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 (2015: nil) share options were exercised during the year ended 31 December 2016. 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.

28. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options was 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	**HK$0.345**
Exercise price	HK$0.184	**HK$0.351**
Risk free rate (Note a)	0.98% – 1.05%	**0.94%**
Contractual life	5.50 – 6.00 years	**6 years**
Expected Option Period	4.5 – 5.0 years	**5 years**
Expected volatility (Note b)	53.33% – 60.07%	**52.66%**
Expected dividend yield (Note c)	0.00%	**0.00%**

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 2016, the Group recognised the total expense of HK$2,104,000 (2015: HK$11,895,000) in administrative expenses for year ended 31 December 2016 in relation to share options granted by the Company.

29. 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.

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$2,455,000 (2015: HK$2,488,000) recognised to profit or loss represents contributions payable to these schemes by the Group during the year.

30. 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:

	2016 **HK$'000**	2015 HK$'000
Within one year	**58,307**	54,505
In the second to fifth year inclusive	**50,911**	85,861
	109,218	140,366

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

31. 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:

	2016 HK$'000	2015 HK$'000
Inventories	**31,092**	16,141
Pledged bank deposits	**46,828**	59,655
Property, plant and equipment	**10,691**	43,453
Investment properties	**47,700**	–
	136,311	119,249

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2016 HK$'000	2015 HK$'000
Fees	**540**	582
Salaries and other benefits	**6,174**	8,797
Performance related incentive payments	**1,001**	2,212
Share-based payments	**1,500**	6,729
Retirement benefit scheme contributions	**56**	71
	9,271	18,391

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

33. CAPITAL COMMITMENTS

At 31 December 2016, the Group has capital commitments of HK$5,622,000 (2015: nil) in respect of the acquisition of property, plant and equipment contracted but not provided for.

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34. DIVIDEND

No dividend was paid or proposed during year ended 31 December 2016 (2015: nil), nor has any dividend been proposed since the end of the reporting period (2015: nil).

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Financial assets at FVTPL – derivative	–	5,282
Financial assets at cost	37,279	–
Loans and receivables (including cash and cash equivalents)	397,761	418,129
Financial liabilities		
Amortised cost	170,032	175,410

Financial risk management objectives and policies

The Group's financial instruments include investments in preference shares, investments in convertible bonds, trade and other receivables, loan receivables, pledged bank deposits, bank balances, trade and other payables 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.

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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

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**	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States Dollars ("USD")	**73,097**	63,714	**39,948**	12,040
Renminbi ("RMB")	**22,404**	34,610	**–**	–
Euro ("EUR")	**7,983**	2,107	**1,830**	1,966

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% (2015: 5%) increase and decrease in HK$ against RMB and EUR. 5% (2015: 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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

Sensitivity analysis *(Continued)*

A positive number below indicates a decrease in post-tax profit for the year where HK$ strengthen 5% (2015: 5%) against RMB and EUR. For a 5% (2015: 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**	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Decrease (increase) in post-tax profit	**1,794**	3,037	**257**	6

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, investment in preference shares, loan receivables, pledged bank deposits, certain other borrowings and obligations under finance leases. The Group's cash flow interest rate risk relates primarily to variable-rate bank balances and certain bank and other borrowings (see notes 22 and 24 respectively). 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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

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 2016 would increase/decrease by approximately HK$296,000 (2015: HK$267,000). 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 2016 would increase/decrease by approximately HK$336,000 (2015: HK$468,000).

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 nil (2015: HK$934,000), as a result of changes in fair value of conversion option embedded in the convertible bonds held by the Group.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Price risk on conversion option embedded in convertible bonds held by the Group (Continued)

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 nil (2015: HK$504,000), 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.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, investment in preference shares, investments in convertible bonds, loan receivables, and bank balances and pledged bank deposits for year ended 31 December 2016 and 2015.

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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The investment in preference shares as at 31 December 2016 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 preference shares of carrying amount HK$37,279,000 and in view of sufficient net asset, the management consider the default risk on the investments in preference shares bonds is not significant.

As at 31 December 2016, 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.

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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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	1 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2016						
Non-derivative financial liabilities						
Trade and other payables	**–**	**79,452**	**–**	**–**	**79,452**	**79,452**
Bank and other borrowings	**5.86**	**87,025**	**5,022**	**–**	**92,047**	**90,580**
		166,477	**5,022**	**–**	**171,499**	**170,032**
As at 31 December 2015						
Non-derivative financial liabilities						
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

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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

As at 31 December 2016, the aggregate undiscounted principal amount of bank and other borrowings with repayment on demand clause amounting to HK$83,967,000 (2015: HK$103,846,000) 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 institution 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	3 months to 1 year	1 year to 5 years	Total undiscounted cash flows	Carrying amount at the end of the reporting period
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank and other borrowings						
As at 31 December 2016	**5.87**	**85,199**	**–**	**–**	**85,199**	**83,967**
As at 31 December 2015	3.77	104,641	–	–	104,641	103,846

35. 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 **2016**	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 21) classified as financial asset at FVTPL in the consolidated statement of financial position	–	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 (as defined in note 21), 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.

35. 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 2016.

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
At 1 January 2015	–
Fair value recognised upon acquisition	6,734
Change in fair value in profit or loss (Note)	(1,452)
At 31 December 2015	5,282
Change in fair value in profit or loss (Note)	(5,282)
At 31 December 2016	–

Note: Changes in fair value recognised in profit or loss relates to the conversion options embedded in CBs (as defined in note 21) held at the end of the reporting period which is included in "other gains and losses".

36. 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.

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37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2016 and 2015 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 2016 %	2015 %	Principal activities
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
Auto Italia Limited	Hong Kong	Ordinary	HK$100,000	**100#**	100#	Trading of cars and related accessories and provision of car repairing services
Auto Italia (Hong Kong) Limited	Hong Kong	Ordinary	HK$1	**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

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 2016 %	2015 %	Principal activities
Concept Will Limited	Hong Kong	Ordinary	HK$1	**100#**	100#	Provision of pre-delivery inspection consultancy services of Audi in Hong Kong
勵快駿投資咨詢(上海)有限公司##	Mainland China	N/A	HK$1,000,000	**100#**	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	**100#**	100#	Provision of financial services
Auto Italia (Finance) Limited	British Virgin Islands	Ordinary	USD1	**100#**	100#	Provision of financial services
Greenroot Investments Limited	British Virgin Islands	Ordinary	USD1	**100**	100	Investment holding
One Speed Limited	British Virgin Islands	Ordinary	USD1	**100#**	100#	Investment holding
Ally Wisdom Investment Limited	British Virgin Island	Ordinary	USD1	**100#**	–	Investment holding

\# These entities are indirectly held by the Company.

\## This 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 2016

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:

	2016	2015
	HK$'000	HK$'000
Non-current asset		
Unlisted investments in subsidiaries	**23,394**	23,394
Current assets		
Other receivables	**460**	397
Amounts due from group companies	**238,601**	275,424
Bank balances and cash	**38,874**	733
	301,329	299,948
Current liabilities		
Other payables	**5,327**	4,878
Financial guarantee contracts	**4,344**	4,344
Total liabilities	**9,671**	9,222
Total assets less current liabilities	**291,658**	290,726
Capital and reserves		
Share capital (note 26)	**104,391**	104,079
Reserves (Note)	**187,267**	186,647
Total equity	**291,658**	290,726

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

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 2015	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
Loss and total comprehensive expense for the year	–	–	–	–	(2,407)	(2,407)
Recognition of equity settled share-based payments	–	–	2,104	–	–	2,104
Exercise of share options	3,965	–	(1,408)	–	–	2,557
Transfer upon lapse of share options	–	–	(1,634)	–	–	(1,634)
At 31 December 2016	249,345	2,151	12,128	46,396	(122,753)	187,267

Five-year Financial Summary

	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(restated)
Results					
Revenue from continuing operations	**742,484**	973,140	1,095,363	1,182,788	1,190,230
(Loss) profit for the year	**(12,375)**	27,756	36,305	(55,662)	(82,239)
Attributable to:					
Owners of the Company	**(12,375)**	27,756	27,576	(48,042)	(79,270)
Non-controlling interests	**–**	–	8,729	(7,620)	(2,969)
	(12,375)	27,756	36,305	(55,662)	(82,239)
Assets and liabilities					
Total assets	**829,250**	775,878	763,981	692,679	912,795
Total liabilities	**(430,494)**	(373,578)	(404,885)	(535,095)	(721,958)
Net assets	**398,756**	402,300	359,096	157,584	190,837
Equity attributable to owners of the Company	**398,756**	402,300	359,096	148,866	182,757
Non-controlling interests	**–**	–	–	8,718	8,080
Total equity	**398,756**	402,300	359,096	157,584	190,837