



AUTO ITALIA

**AUTO ITALIA HOLDINGS LIMITED**

**意 達 利 控 股 有 限 公 司**

(Incorporated in Bermuda with limited liability)

Stock Code: 720

## 2017 INTERIM REPORT



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## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

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

#### Independent Non-executive Directors

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

### BOARD COMMITTEES

#### Audit Committee

Mr. KONG Kai Chuen Frankie (*Chairman*)  
Dr. SANTOS Antonio Maria  
Mr. LEE Ben Tiong Leong

#### Remuneration Committee

Dr. SANTOS Antonio Maria (*Chairman*)  
Mr. CHONG Tin Lung Benny  
Mr. KONG Kai Chuen Frankie  
Mr. LEE Ben Tiong Leong

#### Nomination Committee

Mr. CHONG Tin Lung Benny (*Chairman*)  
Dr. SANTOS Antonio Maria  
Mr. KONG Kai Chuen Frankie  
Mr. LEE Ben Tiong Leong

### COMPANY SECRETARY

Mr. WONG Yat Tung

### AUTHORISED REPRESENTATIVES

Mr. CHONG Tin Lung Benny  
Mr. WONG Yat Tung

### REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## CORPORATE INFORMATION

### PRINCIPAL OFFICE IN HONG KONG

Unit C, Ground Floor  
2 Yuen Shun Circuit  
Siu Lek Yuen  
Shatin, Hong Kong  
Tel: (852) 2365 0269  
Fax: (852) 2469 9927  
E-mail: [info@autoitalia.com.hk](mailto:info@autoitalia.com.hk)

### PRINCIPAL BANKERS

China CITIC Bank International Limited  
Dah Sing Bank, Limited  
OCBC Wing Hang Bank Limited  
ORIX Asia Limited  
The Bank of East Asia, Limited

### LEGAL ADVISORS

#### Hong Kong

Troutman Sanders  
Howse Williams Bowers  
Chiu & Partners

#### 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

### BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

### STOCK CODE

The Stock Exchange of Hong Kong Limited: 720

### WEBSITE ADDRESS

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Car Division

##### *Revenue*

For the first half of 2017, the Car Division's revenue decreased by 2.7% to HK\$390.7 million (2016: HK\$401.4 million).

In Mainland China, the revenue generated from our Pre-Delivery Inspection ("PDI") services in Shanghai increased to HK\$39.8 million (2016: HK\$32.1 million) mainly contributed by the increase of number of Maserati cars and the new PDI services for Alfa Romeo that newly commenced in March 2017.

The overall revenue from Hong Kong recorded a drop of 5% to HK\$350.9 million (2016: HK\$369.3 million) as the Ferrari business stays inactive due to the announcement of termination of the import and distribution rights of Ferrari cars in Hong Kong and Macau with effect from 27 May 2017. Nevertheless, the revenue from Maserati business recorded an increase of 76% to HK\$160.7 million (2016: HK\$91.5 million) contributed by the increase of both new car unit sales and after-sales services revenue.

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

Gross profit margin increased by 5.9 percentage points to 28.7%. Our gross profit increased from HK\$91.7 million to HK\$112 million owing to the increase in car unit sales of Maserati in Hong Kong operation.

##### *Other Income*

For the six months ended 30 June 2017, other income amounted to HK\$12.9 million (2016: HK\$7.9 million). The net increase of HK\$5 million was mainly contributed by the sale support from the supplier.

##### *Other Gains and Losses*

Other gains and losses amounted to a net gain of HK\$4.4 million (2016: loss of HK\$2.5 million) which included gain on disposal of property, plant and equipment of HK\$2.4 million and net foreign exchange gain of HK\$2.1 million.

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

Selling and distribution costs and administrative expenses during the period aggregated to HK\$92 million (2016: HK\$104.2 million), which accounted for 23.5% (2016: 25.9%) of revenue. The net decrease of HK\$12.2 million was mainly due to a decrease in staff related cost resulting from our cost optimisation, restructuring plan and termination with Ferrari.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Finance Costs**

Finance costs during the period were increased to HK\$1.5 million (2016: HK\$1.2 million).

### **Financial Investments and Services and Property Investment Divisions**

#### **Operating Results**

During the period, the revenue of Financial Investments and Services Division dropped to HK\$1.4 million (2016: HK\$2.8 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit after tax increased to HK\$1.2 million (2016: HK\$0.3 million) as the HK\$5.3 million fair value loss of the derivative component of investments in convertible bonds was recorded in the first half result of 2016. Furthermore, we recorded a rental income of HK\$0.9 million for leasing the property of the Group to a third party (2016: HK\$0.2 million) and recorded a fair value gain of HK\$5.2 million on the investment properties.

#### **Profit Attributable to Shareholders**

Profit attributable to shareholders of the Company for the six months ended 30 June 2017 was HK\$35.4 million (2016: loss of HK\$11.4 million). It was primarily attributable to an increase in unit sales of Maserati cars, an increase in income from the provision of PDI services in Mainland China and fair value gain on investment properties as well as gain on disposal of property, plant and equipment.

#### **Liquidity and Financial Resources**

##### **Cash Flow**

During the period, the Group financed its operations primarily through cash generated from the Group's operations. We have made a net repayment of bank borrowings of HK\$52.5 million.

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

As at 30 June 2017, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$289.4 million as compared with HK\$295.7 million as at 31 December 2016, which were mainly denominated in Hong Kong dollars (as to 84%), Renminbi (as to 10%), U.S. dollars (as to 4%) and Euro (as to 2%).

##### **Bank and Other Borrowings**

As at 30 June 2017, the Group had bank loans totalling HK\$38 million (31 December 2016: HK\$90.6 million), of which HK\$4 million was repayable more than one year. Net cash position as at 30 June 2017 was HK\$251.4 million (31 December 2016: HK\$205 million), no gearing ratio is presented.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Loan Receivables***

During the period, the Group had engaged in Financial Investments and Services business, which included the provision of loan financing. As at 30 June 2017, the Group had outstanding loan lent to customer totalling HK\$26 million (31 December 2016: HK\$57 million), which carry on interest rates of 8% per annum and will be repayable within six months.

Subsequent to the end of the period, the Group has lent a loan in the principal amount of HK\$20 million on 7 July 2017, which carries interest at the rate of 8% per annum and such loan will be repayable within one year.

### **Pledge of Assets**

As at 30 June 2017, certain of the Group's properties, bank deposits, inventories totalling HK\$104.8 million (31 December 2016: HK\$136.3 million) were pledged as securities for relevant bank loans and other bank facilities granted.

## **CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES**

As at 30 June 2017, the Group had total capital commitments (authorised but not contracted for) of HK\$0.2 million (31 December 2016: HK\$11.4 million), primarily related to the purchase of machinery for after-sales operation. These capital commitments are expected to be financed by internal resources of the Group.

As at 30 June 2017, the Group had no material contingent liabilities.

## **EVENT AFTER THE REPORTING PERIOD**

On 18 August 2017, the Group entered into a shareholders agreement to subscribe for 27.49% of the issued share capital in Dakota RE II Limited ("Targetco") at a total subscription price of about GBP5.43 million (equivalent to about HK\$55 million) (the "Subscription"). Targetco is a recently incorporated holding company of the Target Group (collectively, Targetco, Dakota Capella LLP and two other direct wholly-owned subsidiaries of Targetco), a member of which is the principal investment company that has agreed to purchase Capella, which is an office building located in Glasgow, Scotland (the "Relevant Property") at a total purchase price of GBP43.5 million. The Relevant Property has a total lettable area of about 115,300 square feet, of which about 93% have been leased to various tenants. Based on the existing leases (the unit rental of which ranges from about GBP25 to GBP27 per square foot per annum), the total annual rental income attributable to the Relevant Property amounted to about GBP3 million. For details of the Subscription, please refer to the Company's announcement dated 18 August 2017 and note 20 to the condensed consolidated financial statements of this interim report (the "Report").

## MANAGEMENT DISCUSSION AND ANALYSIS

### HUMAN RESOURCES AND CHARITY

As at 30 June 2017, the Group employed a total of 207 employees in Hong Kong and Mainland China. The Group believes that employees are all pivotal to our development and representing the most valuable asset for supporting our sustainable business growth.

During the period, we not only provided competitive remuneration packages and benefits programs to our employees, but also provided reasonable and safe working environment, as well as supporting employees' continued education to uncover their hidden potential. The Group also continued its contribution to local communities through active participation in charitable events such as donations and charity walk.

### BUSINESS REVIEW

#### Maserati

In the first half of 2017, though the economy is mildly recovering, the value of retail sales still dropped by 0.6% year-on-year while the luxury car market is still soft. During the period, Maserati strived to achieve an increase in sales to close to 200 units with aided from the launch of the new SUV Levante. The new model launched successfully aroused market awareness and received good responses. Supported by the first lot of delivery, more SUV Levante delivered to the customer and caught more attentions on the brand and other model ranges, resulting in driving our overall sales momentum.

With both new and pre-owned under one roof at the Kowloon Bay Flagship Showroom, it created synergistic effects for our visitors and lead to a progressive trend for the pre-owned business.

For after-sales services, we continued to provide best-in-class after-sales services to the customers to show our commitment to our business. Therefore, the owners can benefit from a team of fully qualified factory trained professionals, to maintain every vehicle the highest level in terms of safety and performance. We have achieved the best overall manufacturer business key performance Indicators in Asia Pacific region, with increase in overall after-sales services revenue and gross profit during the first half of 2017, as compared with the same period of 2016.



## MANAGEMENT DISCUSSION AND ANALYSIS

For marketing, Maserati continued to reinforce brand presence and product promotion by digital marketing in cost effective approach. The team managed to create more interactive communication with our target audience by instant follow-up actions and captured extensive database for different sales campaigns. Various digital channels also enabled us to reach out and collect broader spectrum of prospects in more dynamic approaches. Client acquisition is a key to our business and the team will continue to collaborate with luxury brands and arrange test drive activities and car shows at high-end areas to attract potential customers from luxury segment. Sales team maintained good service quality in terms of sales facilities and sales process which received good result from customer satisfaction survey with average score 98.8.

### **Pre-Delivery Inspection**

Our PDI operation in both Hong Kong and China performed well and achieved satisfactory progress in the first half of 2017.

In Shanghai, our PDI centre was further expanded and renovated with a total of 13,000 square meter. We not only inspected the new cars from Ferrari and Maserati when they firstly arrived into China, but also ensured all imperfections on the cars are fixed and systems updated to the latest specifications before delivery. In March 2017, we also entered into a new contract with Alfa Romeo and are responsible for their PDI in China.

In Hong Kong, our PDI operation for Audi and Maserati remains steady. 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.

### **Property Investment, Financial Investments and Services**

During the period, the Group continued to engage in property investment business, financing business and financing-related consultancy services. The Group mainly provides short to medium-term financing, normally not exceeding 12 months, to our clients.

### **Ferrari**

The Ferrari business stays inactive due to the announcement of termination of the Group's import and distribution rights of Ferrari cars in Hong Kong and Macau with effect from 27 May 2017. In March 2017, the Group and Ferrari entered into a term sheet concerning the transitional arrangements of Ferrari vehicle orders and after-sales services for the period from 27 May 2017 until 30 September 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the period, under the restrictions on new car sales and order, the Group focused on the new car delivery, including the 488 Coupe/Spider, California T HS and F-12 TDF and La Ferrari Aperta.

To ensure a smooth transitional progress of Ferrari vehicle orders and after-sales services, before 30 September 2017, the Group will continue to provide certain services, including new vehicle delivery and after-sales maintenance services for our customers to show our business commitment.

### OUTLOOK

With Maserati's new model variants launching by the end of 2017, we will be sustainably strengthening our competitiveness and increase sales performance.

After relocation of Body & Paint and PDI centre in Hong Kong, streamline operation with consolidated location will further improve profitability on our after-sales business. Strong sales delivery momentum on Maserati will bring more opportunities for additional income source.

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.

Following the Subscription, the annual rental income attributable to the Relevant Property will allow the Group to enjoy a stable income stream. The Subscription will also enable the Group to capture upside of the recovering property market in Scotland.

On the other hand, the Group will continue to explore different business opportunities for financing business with the aim of bringing long-term enhancement of value to our shareholders.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### INTERIM DIVIDEND

The board of directors of the Company (the "Board") resolved not to declare payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

### DISCLOSURE OF INTERESTS

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

As at 30 June 2017, the interests and short positions of each director (the "Director(s)") and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange were as follows:

- (a)(i) None of the Directors held any beneficial interests and long positions in the shares of the Company.
- (a)(ii) None of the Directors held any short positions in the shares of the Company.
- (b) Beneficial interests and short positions in underlying shares of equity derivatives of the Company at 30 June 2017 are disclosed in the section headed "Share Option Scheme" of this Report.

Save as disclosed in the section headed "Share Option Scheme" of this Report, as at 30 June 2017, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

**Arrangement for Directors to Acquire Shares or Debentures**

Save as disclosed in the section headed "Share Option Scheme" of this Report, at no time during the six months ended 30 June 2017 was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

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

So far as is known to the Directors, as at 30 June 2017, the persons or corporations (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholders	Number of shares	Approximate % of the total number of issued shares <sup>#</sup>
Gustavo International Limited	304,725,000 <sup>(Notes 1&amp;2)</sup>	5.84%
Maini Investments Limited	304,725,000 <sup>(Notes 1&amp;2)</sup>	5.84%
VMS Investment Group Limited ("VMSIG")	1,498,016,472 <sup>(Notes 1&amp;2)</sup>	28.70%
VMS Holdings Limited ("VMSH")	1,498,016,472 <sup>(Notes 1&amp;2)</sup>	28.70%
Ms. MAK Siu Hang Viola	1,498,016,472 <sup>(Notes 1&amp;2)</sup>	28.70%

<sup>#</sup> Based on the total number of the Company's issued shares of 5,219,541,190 as at 30 June 2017.

Notes:

- (1) VMSIG and parties acting in concert with it are interested in an aggregate of 1,498,016,472 shares of the Company, of which 1,193,291,472 shares are held by VMSIG and 304,725,000 shares are held by Gustavo International Limited (a company which is wholly-owned by Maini Investments Limited, which in turn is wholly-owned by VMSIG, which in turn is wholly-owned by VMSH). VMSH is wholly-owned by Ms. MAK Siu Hang Viola.
- (2) All interests in the shares of the Company are held in long positions.

Save as disclosed above, as at 30 June 2017, the Company had not been notified by any persons or corporations (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

## SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 28 May 2012 (the “Option Scheme”), options were granted to certain Directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK\$0.02 each in the capital of the Company. Details of movements of the share options granted under the Option Scheme during the six months ended 30 June 2017 were as follows:

Name or category of participants	Date of grant	Exercise price (HK\$)	Exercisable period	As at 1 January 2017	Granted during the period	Exercised during the period	Cancelled/Lapsed during the period	As at 30 June 2017
<b>Directors</b>								
Mr. CHONG Tin Lung Benny	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	51,891,000	-	-	-	51,891,000
Mr. LAM Chi Yan	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	18,700,000	-	-	-	18,700,000
	15/06/2017	0.0932	15/06/2018 to 14/06/2023 <sup>(Note 2)</sup>	-	18,700,000	-	-	18,700,000
Dr. SANTOS Antonio Maria	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(Note 3)</sup>	1,500,000	-	-	-	1,500,000
Mr. KONG Kai Chuen Frankie	16/10/2014	0.184	16/04/2015 to 15/04/2020 <sup>(Note 3)</sup>	1,500,000	-	-	-	1,500,000
<b>Employees in aggregate</b>								
	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	33,483,800	-	-	(6,178,200)	27,305,600
	20/04/2015	0.351	20/04/2016 to 19/04/2021 <sup>(Note 2)</sup>	611,000	-	-	-	611,000
	15/06/2017	0.0932	15/06/2018 to 14/06/2023 <sup>(Note 2)</sup>	-	18,700,000	-	-	18,700,000
<b>Other eligible participants</b> <sup>(Note 4)</sup>	16/10/2014	0.184	16/10/2015 to 15/10/2020 <sup>(Note 2)</sup>	40,000,000	-	-	-	40,000,000
<b>Total</b>				<b>147,685,800</b>	<b>37,400,000</b> <sup>(Note 4)</sup>	<b>-</b>	<b>(6,178,200)</b>	<b>178,907,600</b>

## CORPORATE GOVERNANCE AND OTHER INFORMATION

## Notes:

- (1) The closing prices per share of the Company immediately before 16 October 2014, 20 April 2015 and 15 June 2017 (the dates on which the share options were granted) were HK\$0.187, HK\$0.335 and HK\$0.093 respectively.
- (2) Share options granted under the Option Scheme on 16 October 2014, 20 April 2015 and 15 June 2017 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

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

- (3) Share options granted under the Option Scheme on 16 October 2014 shall vest in the grantees in accordance with the date falling on the end of the sixth month from the date of grant.
- (4) Referring to the Company's announcement dated 15 June 2017, a total of 97,400,000 share options were granted on 15 June 2017 which were subject to the acceptance of the grantees. 37,400,000 share options were accepted by the grantees on 27 June 2017 and the remaining 60,000,000 share options were accepted by the grantees on 4 July 2017.

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

During the six months ended 30 June 2017, the Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

Maintaining an effective corporate governance framework is one of the priorities of the Company. In the opinion of the Directors, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2017, except Code Provision A.2.1 of the CG Code.

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

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

### MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as standard for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors by the Company, the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2017.

### CHANGES IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company, the changes in information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are as follows:

The appointment of Mr. CHONG Tin Lung Benny as an executive Director, the Executive Chairman and Chief Executive Officer of the Company was renewed for a further term of 2 years commencing from 13 June 2017 to 12 June 2019 (both dates inclusive). The annual director's fee of Mr. Chong was adjusted from HK\$2,016,000 to HK\$3,000,000 with effect from 13 June 2017.

The appointment of Mr. LAM Chi Yan as an executive Director was renewed for a further term of 2 years commencing from 13 June 2017 to 12 June 2019 (both dates inclusive). The annual director's fee of Mr. Lam was adjusted from HK\$1,881,000 to HK\$2,034,492 with effect from 13 June 2017. On 15 June 2017, 18,700,000 share options of the Company were granted to Mr. LAM Chi Yan and were subsequently accepted by Mr. Lam.

Dr. SANTOS Antonio Maria, an independent non-executive Director, ceased as the director and shareholder of United Partners Incorporated (a private company incorporated in the British Virgin Islands principally engaged in providing financial consultancy services) since December 2016. He has been a director and shareholder of Yatu Security and Technology Holding Ltd (a group of companies engaged in smart property management, technology development and management, hire purchase and rental of safes and safety boxes, and planning and development of land project) since May 2017.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

The appointment of Mr. KONG Kai Chuen Frankie as an independent non-executive Director was renewed for a further term of 2 years commencing from 21 June 2017 to 20 June 2019 (both dates inclusive).

The appointment of Mr. LEE Ben Tiong Leong as an independent non-executive Director was renewed for a further term of 2 years commencing from 27 February 2017 to 26 February 2019 (both dates inclusive).

Directors who held office during the six months ended 30 June 2017 and up to the date of this Report were:

### **Executive Directors**

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

### **Independent Non-executive Directors**

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

## **REVIEW OF INTERIM RESULTS**

The Company's audit committee (the "Audit Committee") comprises Mr. KONG Kai Chuen Frankie, the chairman of the Audit Committee, Dr. SANTOS Antonio Maria and Mr. LEE Ben Tiong Leong, all of whom are independent non-executive Directors. The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and the risk management and internal control systems of the Group.

The interim results of the Group for the six months ended 30 June 2017 have not been audited but have been reviewed by Deloitte Touche Tohmatsu, the Company's auditor. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017.

By order of the Board

**CHONG Tin Lung Benny**  
*Executive Chairman and Chief Executive Officer*

Hong Kong, 30 August 2017



## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# Deloitte.

# 德勤

TO THE BOARD OF DIRECTORS OF AUTO ITALIA HOLDINGS LIMITED

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Auto Italia Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 18 to 38, which comprises the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

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



## REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONCLUSION

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

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
30 August 2017

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017	2016
		HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue	3	<b>393,080</b>	404,383
Cost of sales		<b>(278,778)</b>	(309,706)
Gross profit		<b>114,302</b>	94,677
Other income		<b>12,885</b>	11,411
Other gains and losses	4	<b>9,574</b>	(7,777)
Selling and distribution costs		<b>(59,198)</b>	(69,073)
Administrative expenses		<b>(35,011)</b>	(37,736)
Finance costs	5	<b>(1,600)</b>	(1,210)
Profit (loss) before taxation		<b>40,952</b>	(9,708)
Taxation	7	<b>(5,558)</b>	(1,732)
Profit (loss) for the period	6	<b>35,394</b>	(11,440)
Earnings (loss) per share			
– Basic	8	<b>HK0.68 cent</b>	(HK0.22 cent)
– Diluted	8	<b>HK0.68 cent</b>	(HK0.22 cent)

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

For the six months ended 30 June 2017

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Profit (loss) for the period</b>	<b>35,394</b>	(11,440)
<b>Other comprehensive (expense) income</b>		
<i>Item that will not be reclassified to profit or loss:</i>		
Gain on property revaluation upon transfer to investment properties	–	3,626
<i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<b>(204)</b>	207
<b>Other comprehensive (expense) income for the period</b>	<b>(204)</b>	3,833
<b>Total comprehensive income (expense) attributable to owners of the Company for the period</b>	<b>35,190</b>	(7,607)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

		At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
<b>Non-current assets</b>			
Investment properties	10	52,900	47,700
Property, plant and equipment	11	42,518	53,852
Goodwill		2,480	2,480
Rental deposits		8,691	16,314
Investment in preference shares		37,279	37,279
		<b>143,868</b>	157,625
<b>Current assets</b>			
Inventories		164,269	225,557
Trade and other receivables	12	93,277	93,401
Loan receivables	13	26,000	57,000
Pledged bank deposits		46,041	46,828
Bank balances and cash		243,435	248,839
		<b>573,022</b>	671,625
<b>Current liabilities</b>			
Trade and other payables	14	236,839	331,264
Tax payable		6,138	7,483
Bank and other borrowings	15	34,020	85,675
		<b>276,997</b>	424,422
<b>Net current assets</b>		<b>296,025</b>	247,203
<b>Total assets less current liabilities</b>		<b>439,893</b>	404,828

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
<b>Capital and reserves</b>			
Share capital	16	104,391	104,391
Reserves		330,290	294,365
<b>Total equity</b>		<b>434,681</b>	398,756
<b>Non-current liabilities</b>			
Bank and other borrowings	15	4,024	4,905
Deferred taxation		1,188	1,167
		5,212	6,072
		<b>439,893</b>	404,828

Approved by the Board of Directors on 30 August 2017 and are signed on its behalf by:

**CHONG Tin Lung Benny**  
DIRECTOR

**LAM Chi Yan**  
DIRECTOR

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	104,391	249,345	2,151	12,128	19,246	1,139	166,431	(156,075)	398,756
Profit for the period	-	-	-	-	-	-	-	35,394	35,394
Other comprehensive expense for the period	-	-	-	-	-	(204)	-	-	(204)
Total comprehensive (expense) income for the period	-	-	-	-	-	(204)	-	35,394	35,190
Recognition of equity settled share-based payments	-	-	-	735	-	-	-	-	735
Transfer upon lapse of share options	-	-	-	(391)	-	-	-	391	-
At 30 June 2017 (unaudited)	104,391	249,345	2,151	12,472	19,246	935	166,431	(120,290)	434,681
At 1 January 2016 (audited)	104,079	245,380	2,151	13,066	15,620	907	166,431	(145,334)	402,300
Loss for the period	-	-	-	-	-	-	-	(11,440)	(11,440)
Other comprehensive income for the period	-	-	-	-	3,626	207	-	-	3,833
Total comprehensive (expense) income for the period	-	-	-	-	3,626	207	-	(11,440)	(7,607)
Recognition of equity settled share-based payments	-	-	-	2,473	-	-	-	-	2,473
Issue of new shares upon exercise of share options	312	3,965	-	(1,408)	-	-	-	-	2,869
Transfer upon lapse of share options	-	-	-	(403)	-	-	-	403	-
At 30 June 2016 (unaudited)	104,391	249,345	2,151	13,728	19,246	1,114	166,431	(156,371)	400,035

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		
Operating cash flows before movement in working capital	44,510	8,100
Decrease in inventories	61,288	27,660
(Decrease) increase in trade and other payables	(94,425)	51,827
Decrease in loan receivables	31,000	7,000
Decrease in trade and other receivables	10,560	27,787
Other movements in operating activities	(7,033)	(862)
	<b>45,900</b>	121,512
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(13,572)	(8,931)
Proceeds from disposal of property, plant and equipment	15,515	1,920
Placement of pledged bank deposits	–	(31,491)
Withdrawal of pledged bank deposits	1,492	42,786
Other investing cash flows	153	223
	<b>3,588</b>	4,507
<b>FINANCING ACTIVITIES</b>		
Bank and other borrowings raised	159,953	174,803
Repayment of bank and other borrowings	(212,489)	(210,533)
Proceeds on issue of new shares	–	2,869
Other financing cash flows	(1,600)	(1,284)
	<b>(54,136)</b>	(34,145)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,648)</b>	91,874
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>248,839</b>	207,611
Effect of exchange rate changes	(756)	(335)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,</b> represented by bank balances and cash	<b>243,435</b>	299,150



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the accounting period beginning on or after 1 January 2017.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements while the application of these amendments will have impact to the disclosures in the consolidated financial statements for the year ending 31 December 2017.

### 3. SEGMENT INFORMATION

During the six months ended 30 June 2017, the Group has three operating segments under HKFRS 8 are as follows:

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**3. SEGMENT INFORMATION** (Continued)

Segment profit represents the profit earned by each segment without allocation of interest income from bank deposits/bank balances, certain unallocated corporate expenses and finance costs. This is the measure reported to chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

**Segment revenue and results**

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

*Six months ended 30 June 2017 (unaudited)*

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Group revenue	390,733	1,439	908	393,080
<b>SEGMENT RESULTS</b>				
Segment profit	36,435	1,412	6,093	43,940
Interest income				153
Unallocated corporate expenses				(1,541)
Finance costs				(1,600)
Profit before taxation				40,952

*Six months ended 30 June 2016 (unaudited)*

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**3. 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 30 June 2017 (unaudited)

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	310,027	63,464	53,276	426,767
Bank balances and cash				243,435
Pledged bank deposits				46,041
Unallocated corporate assets				647
Consolidated assets				716,890
<b>Liabilities</b>				
Segment liabilities	232,146	82	616	232,844
Bank and other borrowings				38,044
Deferred taxation				1,188
Tax payable				6,138
Unallocated corporate liabilities				3,995
Consolidated liabilities				282,209

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

At 31 December 2016 (audited)

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
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
<b>Liabilities</b>				
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

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**4. OTHER GAINS AND LOSSES**

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Impairment loss on trade and other receivables, net	(134)	(1,196)
Gain on disposal of property, plant and equipment	2,392	289
Net foreign exchange gain (loss)	2,116	(1,618)
Loss on fair value change of derivative component of investments in convertible bonds	–	(5,252)
Fair value gain on investment properties	5,200	–
	<b>9,574</b>	<b>(7,777)</b>

**5. FINANCE COSTS**

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interests on bank and other borrowings	1,600	1,204
Interests on finance leases	–	6
	<b>1,600</b>	<b>1,210</b>

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

Profit (loss) for the period has been arrived at after charging:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	8,834	11,654

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**7. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Current tax:		
Hong Kong	<b>2,617</b>	529
Other jurisdictions	<b>2,941</b>	1,203
	<b>5,558</b>	1,732

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

Under the Law of the People's Republic of China (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 both periods and the service income for the non-PRC subsidiary with permanent establishment in the PRC is subject to deemed profit tax rate of 30%.

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

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Profit (loss) for the period for the purpose of calculating basic and diluted earnings (loss) per share	<b>35,394</b>	(11,440)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	<b>5,219,541,190</b>	5,212,003,168

The computation of diluted loss per share for the period ended 30 June 2017 and 2016 does not assume the exercise of the Company's share options since the exercise price of the share options outstanding were higher than average market price of the shares for the period ended 30 June 2017 and their exercise would result in a decrease in loss per share for the period ended 30 June 2016.

**9. DIVIDEND**

No dividend was paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

**10. INVESTMENT PROPERTIES**

	HK\$'000
<b>Fair value</b>	
At 1 January 2016	–
Transfer from property, plant and equipment	46,800
Fair value gain on investment properties	800
Additions	100
At 31 December 2016	47,700
Fair value gain on investment properties	5,200
At 30 June 2017	52,900

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**10. 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 the opinion of directors, there is no significant change of fair value of the investment properties between the date of transfer and 30 June 2016. During the six months ended 30 June 2017, fair value gain of HK\$5,200,000 was recognised. The valuation of the investment properties at 30 June 2017 was performed by an independent qualified professional valuer.

The investment properties comprised industrial buildings and carparks located in Hong Kong.

**11. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2017, the Group spent HK\$13,572,000 (for the six months ended 30 June 2016: HK\$7,564,000) on the acquisition of property, plant and equipment. The Group also disposed of property, plant and equipment with a carrying amount of HK\$16,087,000 (for the six months ended 30 June 2016: HK\$1,631,000) resulting in a gain of HK\$2,392,000 (for the six months ended 30 June 2016: HK\$289,000).

**12. TRADE AND OTHER RECEIVABLES**

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
Trade receivables	45,673	35,997
Less: Allowance for doubtful debts	–	–
	<b>45,673</b>	35,997
Purchase deposits	19,248	43,837
Utility and rental deposits	10,082	2,246
Prepayments and other receivables	18,274	11,321
	<b>93,277</b>	93,401



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

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

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
0 – 30 days	28,258	18,548
31– 60 days	14,576	14,452
61 – 90 days	253	1,665
91 days to 1 year	2,500	1,210
Over 1 year	86	122
	<b>45,673</b>	<b>35,997</b>

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

**13. LOAN RECEIVABLES**

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
Fixed-rate loans	26,000	57,000

During the six months ended 30 June 2017, HK\$31,000,000 of the loan receivables outstanding at 31 December 2016 have been early repaid. As at 30 June 2017, the loans amounts of HK\$26,000,000 will be repaid in November 2017 (31 December 2016: HK\$26,000,000 and HK\$31,000,000, repayable in November 2017 and December 2017 respectively) which carry on interest rate of 8% per annum. As at 30 June 2017, the balance was secured by listed securities in Hong Kong with fair value of HK\$61,770,000 (31 December 2016: HK\$96,713,000 and HK\$67,483,000).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**14. TRADE AND OTHER PAYABLES**

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
Trade payables	18,396	48,684
Deposits received from customers	119,518	234,505
Advance payments from customers	15,524	4,215
Deferred service income	47,384	–
Accrued charges	13,477	17,307
Other payables	22,540	26,553
	<b>236,839</b>	<b>331,264</b>

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

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
0 – 30 days	11,658	41,142
31 – 60 days	5,284	1,173
61 – 90 days	257	38
91 days to 1 year	449	5,801
Over 1 year	748	530
	<b>18,396</b>	<b>48,684</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**15. BANK AND OTHER BORROWINGS**

During the current interim period, the Group obtained several new bank loans from various banks amounting to approximately HK\$159,953,000 (six months ended 30 June 2016: HK\$174,803,000) and repaid approximately HK\$212,489,000 (six months ended 30 June 2016: HK\$210,533,000). The new loans carry interest at variable market rates ranging from 2.02% to 4.33% per annum (six months ended 30 June 2016: 1.86% to 4.75% per annum).

**16. SHARE CAPITAL**

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.02 each:		
Authorised		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	17,500,000,000	350,000
Issued and fully paid		
At 1 January 2016	5,203,951,190	104,079
Exercise of share options (Note)	15,590,000	312
At 30 June 2016, 31 December 2016 and 30 June 2017	5,219,541,190	104,391

Note: During the six months ended 30 June 2016, the Company issued and allotted a total of 15,590,000 shares of HK\$0.02 each in the Company at exercise price of HK\$0.184 each to certain option holders who exercised their share options.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

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

	<b>At 30 June 2017 HK\$'000 (unaudited)</b>	<b>At 31 December 2016 HK\$'000 (audited)</b>
Within one year	<b>46,699</b>	58,307
In the second to fifth year inclusive	<b>31,513</b>	50,911
	<b>78,212</b>	109,218

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

**18. RELATED PARTY TRANSACTIONS**

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

	<b>Six months ended 30 June 2017 HK\$'000 (unaudited)</b>	<b>2016 HK\$'000 (unaudited)</b>
Key management personnel compensation (Note)	<b>4,730</b>	5,449

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

**19. SHARE-BASED PAYMENTS**

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.

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

	Number of share options
Outstanding as at 1 January 2017	147,685,800
Granted and accepted during the period	37,400,000
Lapsed during the period	(6,178,200)
Outstanding as at 30 June 2017	178,907,600

During 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. 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. The estimated fair value of the options granted on 16 October 2014 was HK\$18,237,000. Nil (six months ended 30 June 2016: 15,590,000) share option was exercised during the six months ended 30 June 2017.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

During 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. The estimated fair value of the options granted on this date was HK\$3,529,000. 40%, 30% and 30% of the 22,617,000 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. Nil (six months ended 30 June 2016: Nil) share option was exercised during the six months ended 30 June 2017.

During the six months ended 30 June 2017, 37,400,000 share options were granted to and accepted by a director and an employee of the Group on 15 June 2017 and 27 June 2017 respectively. The estimated fair value of the options granted on 15 June 2017 is HK\$2,420,000. 40%, 30% and 30% of the 37,400,000 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. Nil share option was exercisable during the six months ended 30 June 2017.

60,000,000 share options offered to consultants on 15 June 2017 were duly accepted on 4 July 2017 and deemed to be granted on 15 June 2017. The estimated fair value of the options deemed to be granted on 15 June 2017 is HK\$3,882,000. 40%, 30% and 30% of the 60,000,000 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. Nil share option was exercisable during the six months ended 30 June 2017.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

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:

	Grant Date*		
	16 October 2014	20 April 2015	15 June and 4 July 2017
Grant date stock price	HK\$0.179	HK\$0.345	<b>HK\$0.0930</b>
Exercise price	HK\$0.184	HK\$0.351	<b>HK\$0.0932</b>
Risk free rate	0.98% – 1.05%	0.94%	<b>0.99%</b>
Contractual life	5.50 – 6.00 years	6.00 years	<b>6.00 years</b>
Expected Option Period	4.5 – 5.0 years	5.00 years	<b>5.00 years</b>
Expected volatility	53.33% – 60.07%	52.66%	<b>82.35%</b>
Expected dividend yield	0.00%	0.00%	<b>0.00%</b>

\* Grant date for recognition of share-based payments

During the six months ended 30 June 2017, the Group recognised the total expense of HK\$735,000 (six months ended 30 June 2016: HK\$2,473,000) in administrative expenses in relation to share options granted by the Company.

**20. SUBSEQUENT EVENT**

On 18 August 2017, the Group entered into a shareholders agreement (the "JV Shareholders Agreement") pursuant to which the Group and five other subscribers have agreed to subscribe for designated number of shares at designated prices in Dakota RE II Limited (the "Targetco") (the "Subscription") as specified in the JV Shareholders Agreement. The Group agreed to subscribe for 2,749 shares of Targetco, representing 27.49% of the issued share capital in Targetco following the completion of the Subscription, at an aggregated consideration of British Pound Sterling ("GBP") 5.43 million (equivalent to approximately HK\$55 million). Targetco is holding shares through its directly owned subsidiary in Dakota Capella LLP ("Target LLP") that has entered into a property agreement with an independent third party pursuant to which Target LLP has agreed to purchase a property (which is an office building located in Glasgow, Scotland) at a total purchase price of GBP43.5 million (equivalent to approximately HK\$439 million). Details of the Subscription are set out in the Company's announcement dated 18 August 2017. As at the date of approving these condensed consolidated financial statements, the Subscription and the acquisition of the property by Target LLP have been completed. The directors of the Company is in the process of assessing the relevant financial impact.