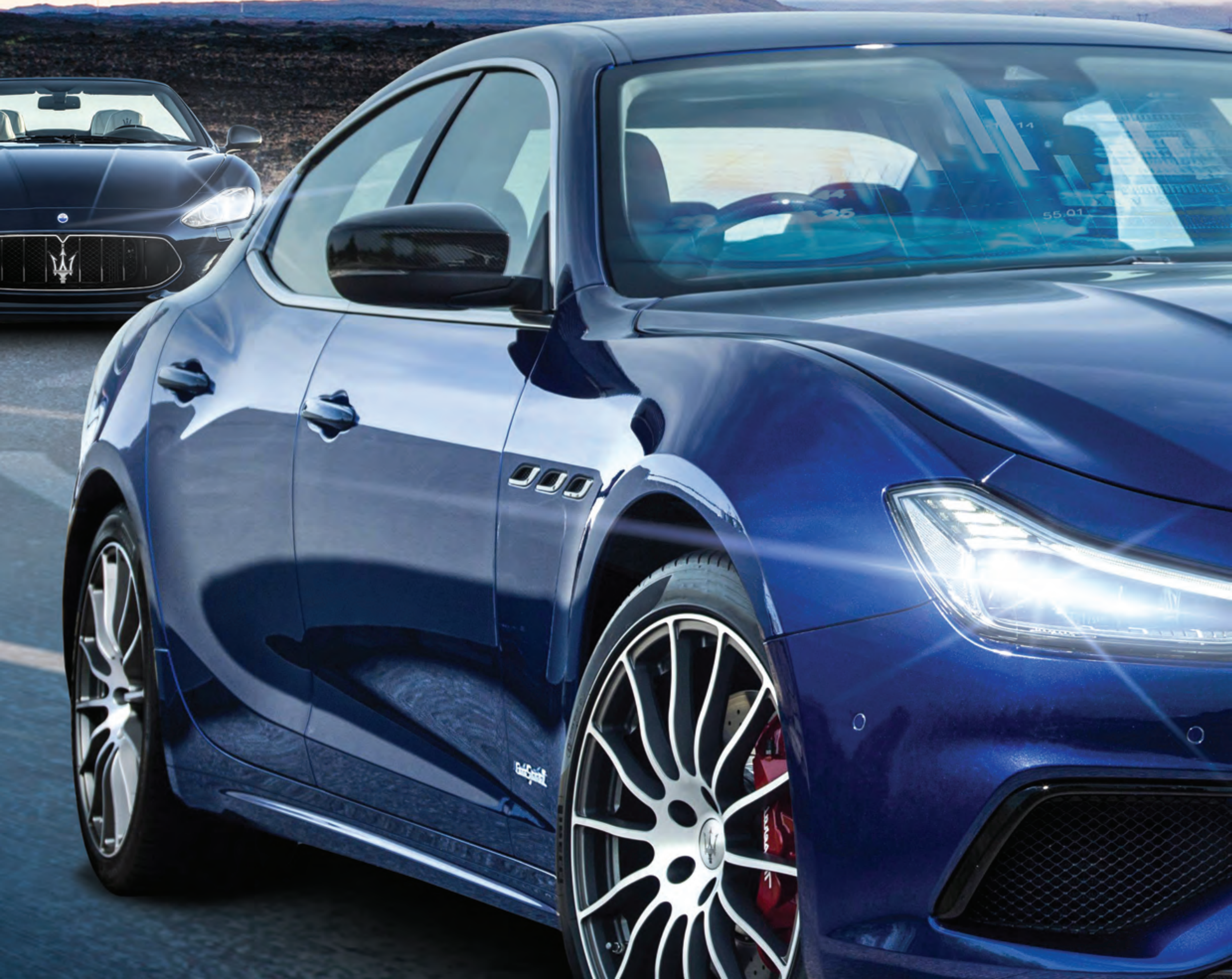
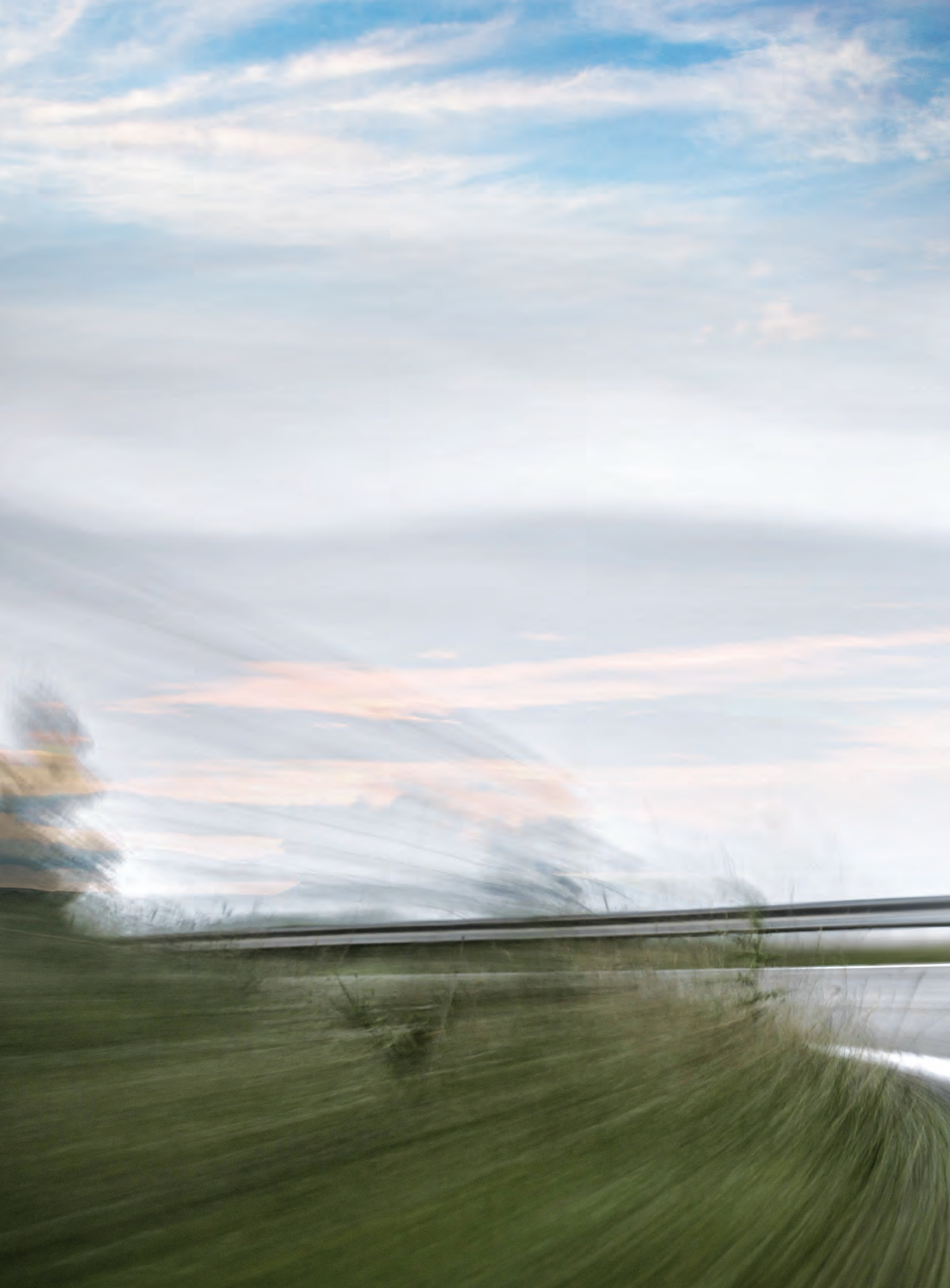
AUTO ITALIA HOLDINGS LIMITED
意達利控股有限公司

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

2017 ANNUAL REPORT

BEYOND
To The NEW ERA





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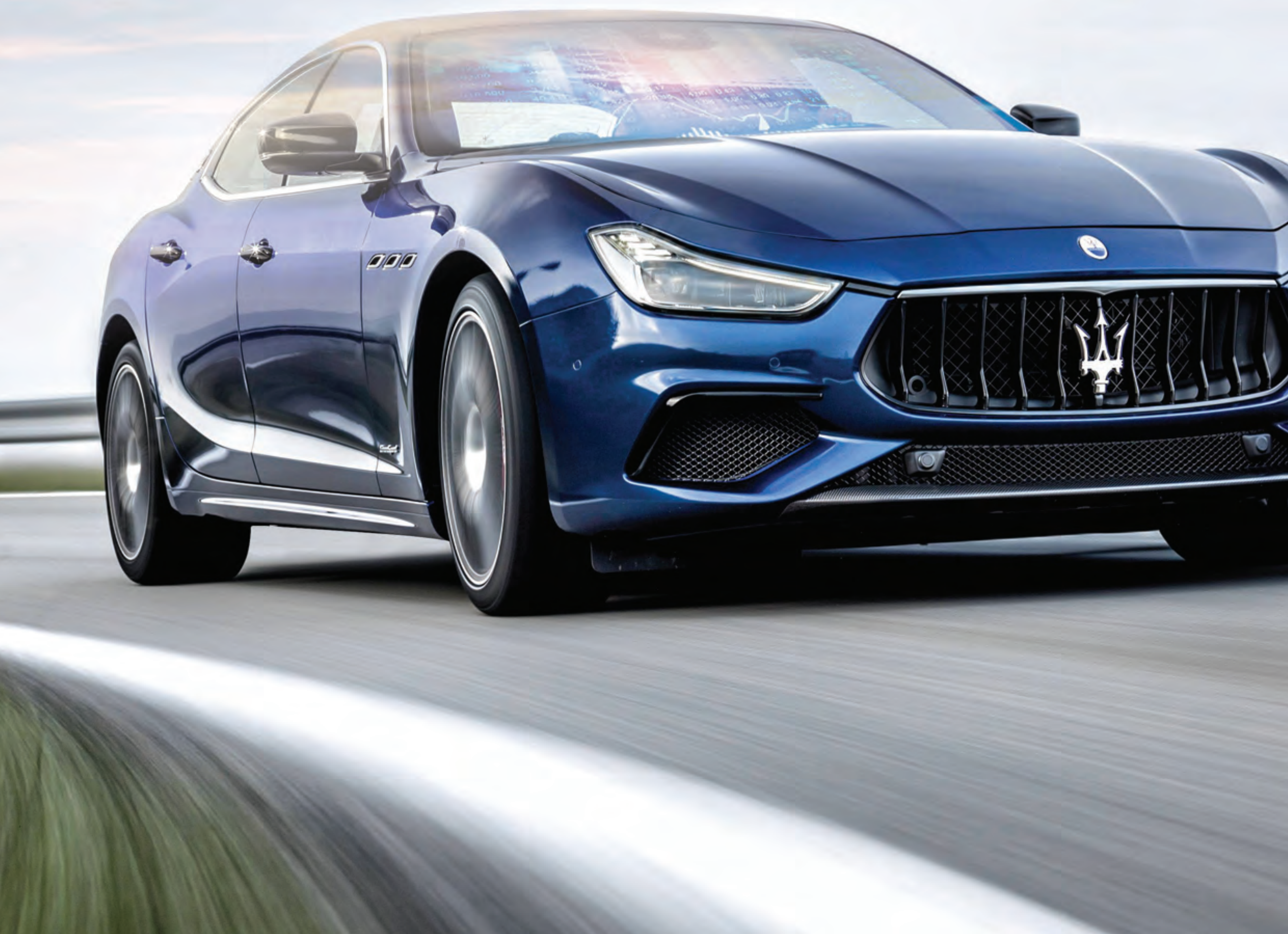

Corporate Information

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

Executive Directors' Committee

Mr. CHONG Tin Lung Benny *(Chairman)*
Mr. LAM Chi Yan

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

PRINCIPAL OFFICE IN HONG KONG
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Tel: (852) 2365 0269
Fax: (852) 2363 1437
E-mail: info@autoitalia.com.hk

PRINCIPAL BANKERS
China CITIC Bank International Limited
Dah Sing Bank, Limited
ORIX Asia Limited

LEGAL ADVISORS
As to Hong Kong Law
Troutman Sanders
Howse Williams Bowers
Chiu & Partners

As to Bermuda Law
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

Chairman's Statement

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I am pleased to present to our shareholders the annual report of Auto Italia Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017.

As I had anticipated in my statement in last year's annual report, 2017 marked another challenging year to the Group due to the rise of the shared economy, new partnerships with disruptive tech companies, the race to launch autonomous vehicles and diesel scandals rocking big players.

Hong Kong saw new car sales bounced back from a slump in 2016, marking a robust recovery that has brought a 12% growth in the overall passenger car sales. However, the luxury car brand segment still suffered a visible drop of 36%, reflecting a key challenge stemmed from the sudden raise of attentions on electronic vehicles.

Despite of such uncertain business environment, the Group applied well balance approach to develop our business into three areas of car, property investment and financial investments and services. Our Group revenue for the year ended 31 December 2017 was HK$792.8 million, which increased by 6.8% from last year. The profit attributable to shareholders increased to HK$85.9 million, as compared to a loss of HK$12.4 million for the year ended 31 December 2016.

Our Group return on equity ratio for the year ended 31 December 2017 improved to 17.5% from a negative return of 3.1% for the year ended 31 December 2016. While the Group recorded a turnaround performance in 2017, the Group also able to optimise its capital structure by improving the debt to equity ratio to 21.6% from 22.7% for the year ended 31 December 2016.

The car division of our Group recorded an annual growth in overall unit sales. Our Maserati brand has extended the solid performance from the previous years despite the change of government policy in 2017 which could hit on the sales of diesel private car. We reacted by launching the Levante S GranSport with petrol engine in time to erasing impact stemmed from such adjustment. The Group kept the high score in the Customer Satisfaction Survey, highlighting the success of our customer-centric strategies.

I am also delighted to report that our After Sales operation has seen continuous progress after several enhancements in 2017. Those included the new Body & Paint operation in our Shatin Service facility. We have proudly scored an astonishing 98.6% in our After Sales operation audit, which is the best in the region and among the top end globally. The positive results were also reflected in the growth in revenue for both Maserati and Audi brands. Meanwhile, our Shanghai PDI Center performed so well by magnificently delivering all forecasted targets of Ferrari, Maserati and Alfa Romeo cars for our clients in the China market.

For the property investment division, the segment profit for the year ended 31 December 2017 increased by HK$7.9 million to HK$9.4 million included the fair value gain of HK$7.6 million on the investment property. In August 2017, the Group has made an indirect investment in an office building in Glasgow, Scotland that allows the Group to enjoy a stable income stream from the rental income attributable to such office building and also enable the Group to capture the upside of the recovering property market in Scotland.

The financial investments and services division of our Group also recorded an increase in the segment profit from HK$4.3 million for the year ended 31 December 2016 to HK$8.7 million for the year ended 31 December 2017. The division mainly provides short

Chairman's Statement

to medium-term financing to our clients. In 2017, interest rates charged to our clients were ranged from 8% per annum to 10% per annum. During the year, the division has disposed the investment in preference shares and recorded a gain of HK$5.6 million.

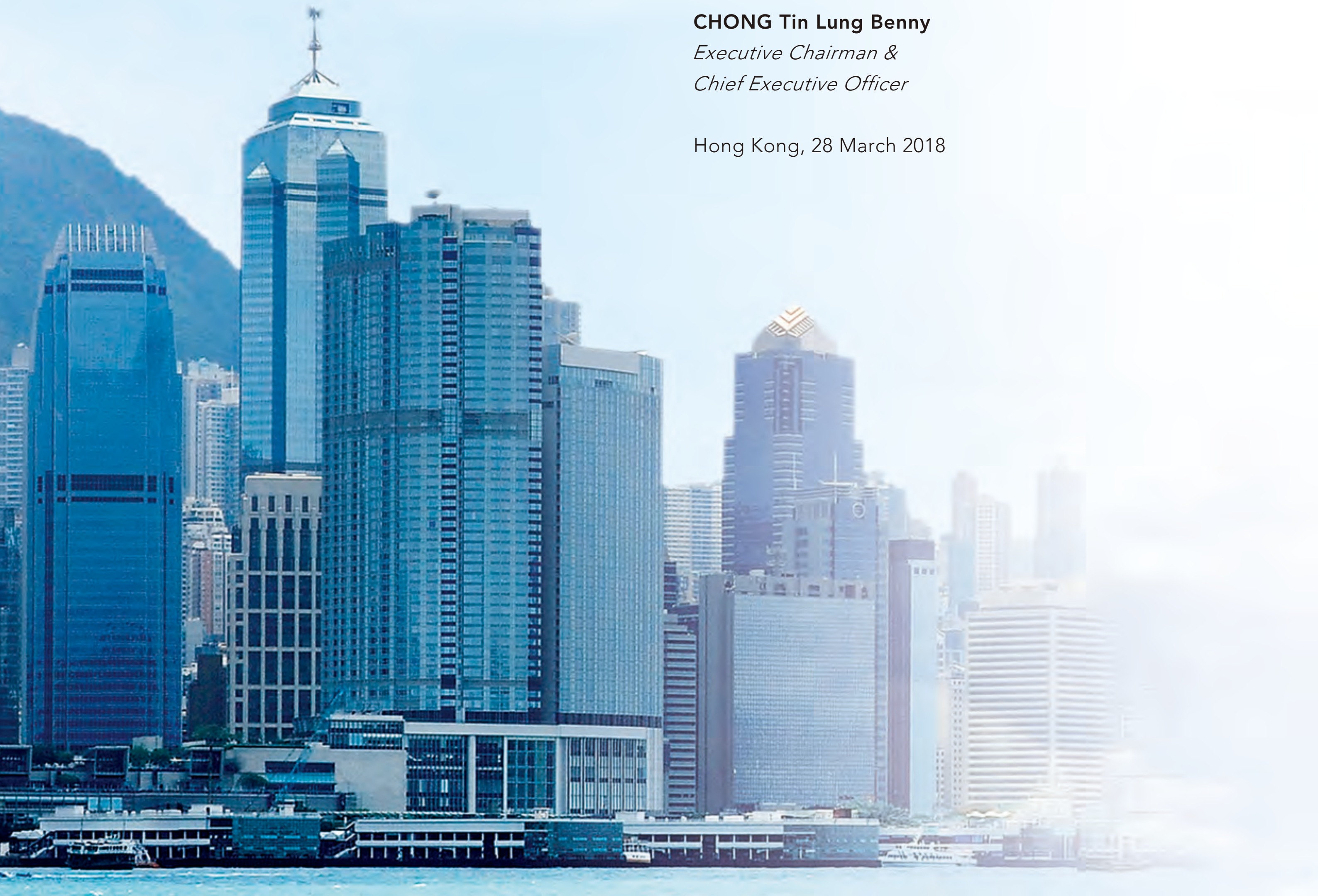
Looking ahead, global auto sales in 2018 are predicted on the short side, reflecting a downward trend of the automotive industry for the luxury car sales market. However, we remains confident in our business, thanks to the consistently strong performance in the brand of Maserati, improving our adaptability by shifting our focus to position the Maserati ownership experience to among the top tier in the European luxury segment and maintain competitiveness in cost of ownership.

The Group will continue to strive for long term profitability through the proactive marketing strategies and agile business operation to adapt the changes. In addition, we are constantly looking at opportunities in the auto, real estate and financial investment and will continue to seek the best risk adjusted return for our shareholders.

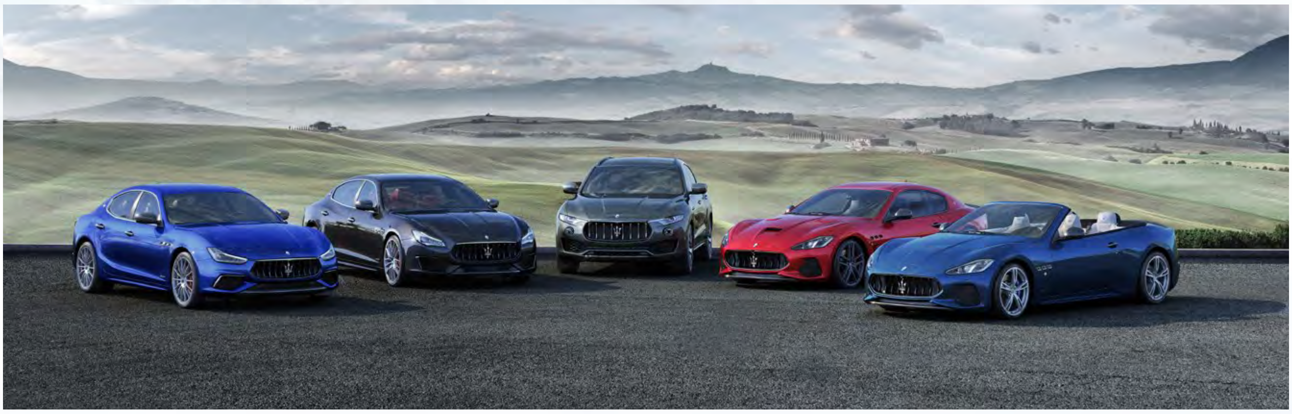
On behalf of the Board, I would like to extend my sincere gratitude to all our shareholders, customers, principals, suppliers and business partners for their enduring trust and support for the Group. I would also like to express my appreciation for my management team and all the employees of the Group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

CHONG Tin Lung Benny
Executive Chairman &
Chief Executive Officer

Hong Kong, 28 March 2018



Management Discussion and Analysis



FINANCIAL REVIEW

CAR DIVISION

Revenue

The Car Division's revenue in 2017 increased by 7.0% to HK$787.4 million (2016: HK$736 million).

In mainland China, the revenue generated from our pre-delivery inspection ("**PDI**") services in Shanghai increased to HK$99.8 million (2016: HK$77.8 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.

In Hong Kong, the revenue from Maserati business recorded an increase of 59% to HK$264.5 million (2016: HK$166.4 million) attributable to the increase of both new car unit sales and after-sales revenue. With the remarkable contribution from the Maserati business, the overall revenue recorded an increase of 4.5% to HK$687.6 million (2016: HK$658.2 million) and recorded an increase in overall car unit sales despite 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.

Cost of Sales and Gross Profit

Gross profit margin increased 5.4 percentage points to 30.4%. Our gross profit increased from HK$183 million in 2016 to HK$238.8 million owing to the increase in car unit sales of Maserati in Hong Kong operation.

Other Income

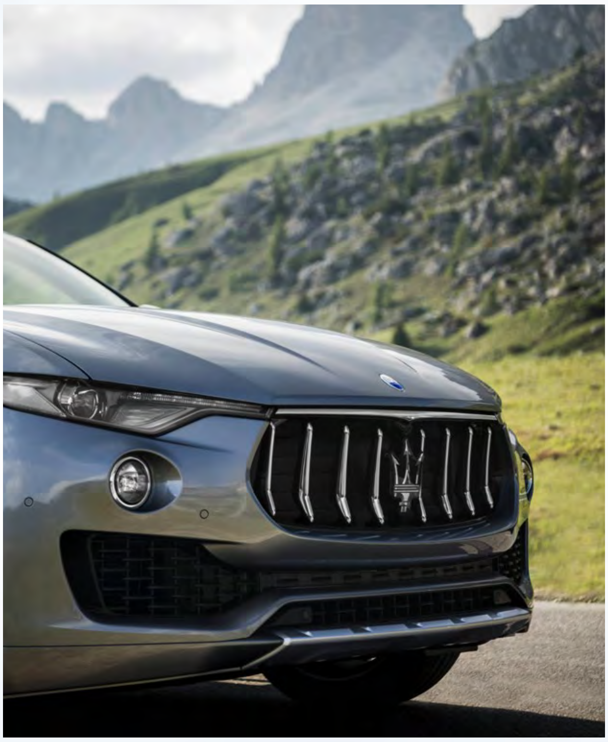
For the year ended 31 December 2017, other income amounted to HK$20.1 million (2016: HK$21.5 million). The net decrease of HK$1.4 million was the net impact from the drop of the forfeiture of customer deposit and the increase of supports from suppliers included subsidies, waiver of marketing and clawback charges.

Other Gains and Losses

Other gains and losses amounted to a net loss of HK$0.1 million (2016: loss of HK$3.9 million) which included loss on disposal of property, plant and equipment of HK$5.2 million, loss on impairment of account receivables of HK$0.4 million and net foreign exchange gain of HK$5.5 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2017 aggregated to HK$178.5 million (2016: HK$205.7 million), which accounted for 22.7% (2016: 28%) of revenue. The net decrease of HK$27.2 million was mainly due to a decrease in staff related cost and rental cost, resulting from our cost optimization, restructuring plan and termination with Ferrari.



Finance Costs

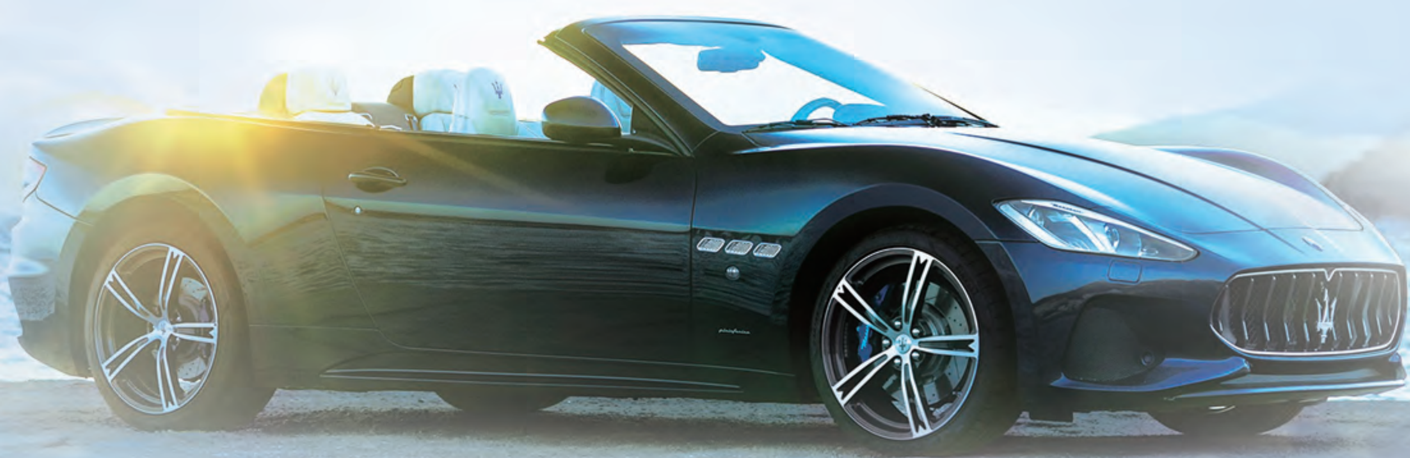
Finance costs in 2017 were reduced by 34.7% to HK$1.9 million (2016: HK$2.8 million).

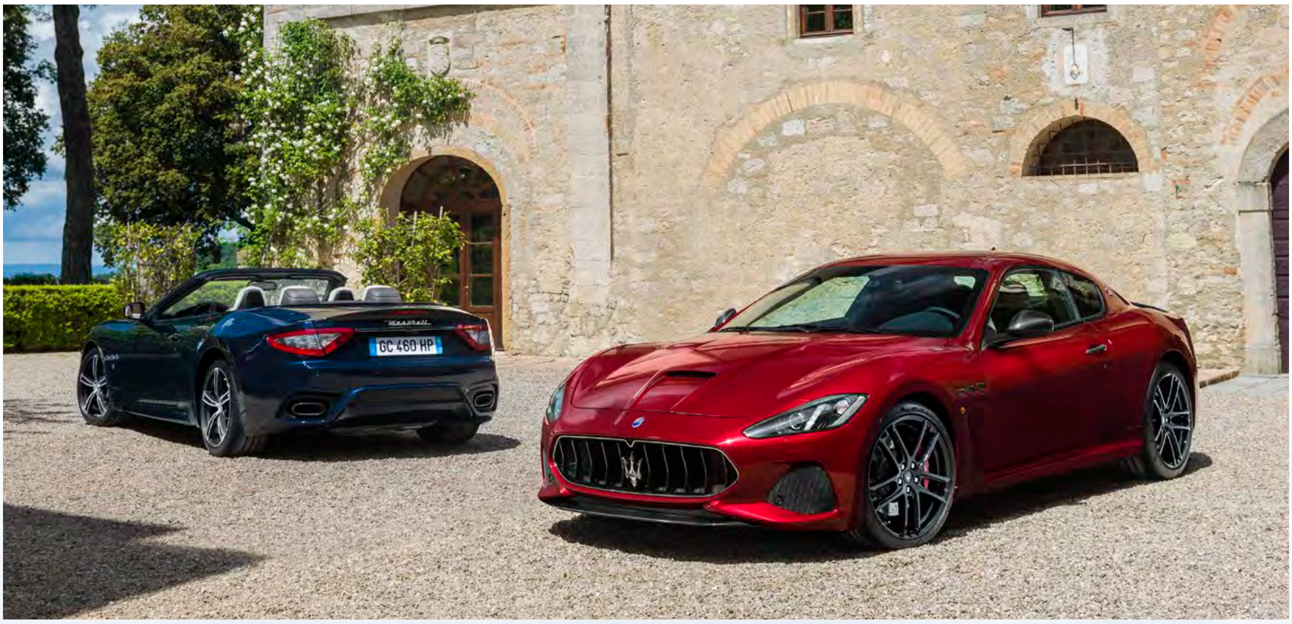
Financial Investments and Services and Property Investment Divisions

Operating Results

For the year ended 31 December 2017, the revenue of Financial Investments and Services division dropped to HK$3.6 million (2016: HK$5.5 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit increased by HK$4.4 million to HK$8.7 million (2016: HK$4.3 million) that was mainly contributed by the HK$5.6 million gain on disposal of the investment in preference shares.

Furthermore, the Property Investment division recorded a rental income of HK$1.8 million for leasing the property of the Group to a third party (2016: HK$1 million). Segment profit increased by HK$7.9 million to HK$9.4 million (2016: HK$1.5 million) that was mainly contributed by the fair value gain of HK$7.6 million on the investment property. During the year, the Group has made an indirect investment in an office building in Glasgow, Scotland that allows the Group to enjoy a stable income stream from the rental income attributable to such office building.





Profit Attributable to Shareholders

Profit attributable to shareholders of the Company for the year was HK$85.9 million (2016: loss of HK$12.4 million). The Group return on equity ratio for the year ended 31 December 2017 improved to 17.5% from a negative return of 3.1% for the year ended 31 December 2016 based on profit after taxation for the year of HK$85.9 million (2016: loss of HK$12.4 million) and total equity of HK$490.7 million (2016: HK$398.8 million). A turnaround of the Group's performance is primarily attributable to (i) an increase in unit sales of Maserati cars; (ii) an increase in income from the provision of after-sales services in Hong Kong and pre-delivery inspection services in mainland China; and (iii) fair value gain on investment properties.

Liquidity and Financial Resources

Cash and Cash Equivalents

As at 31 December 2017, the Group had cash and cash equivalents (including pledged bank deposits) of HK$313.2 million as compared with HK$295.7 million as at 31 December 2016, which were denominated in Hong Kong dollars (as to 75%), Renminbi (as to 17%) and U.S. dollars (as to 7%).

Bank and Other Borrowings

As at 31 December 2017, the Group had bank and other borrowings totalling HK$106.2 million (2016: HK$90.6 million) of which HK$3.2 million were repayable more than one year. Net cash position as at 31 December 2017 was HK$207 million (2016: HK$205 million). The Group debt to equity ratio for the year ended 31 December 2017 improved to 21.6% from 22.7% for the year ended 31 December 2016 based on the total of current and non-current bank and other borrowings of HK$106.2 million (2016: HK$90.6 million) and total equity of HK$490.7 million (2016: HK$398.8 million).

Loan Receivables

During the year, the Group had engaged in Financial Investment and Services Business, which included the provision of loan financing. As at 31 December 2017, the Group had outstanding secured loans lent to customers totalling HK$35.2 million (31 December 2016: HK$57 million), which carry an interest rate range from 8% to 10% per annum and were repayable within 12 months.

Pledge of Assets

As at 31 December 2017, certain of the Group's properties, bank deposits, inventories totalling HK$104.1 million (2016: HK$136.3 million) were pledged as securities for relevant bank loans and other bank facilities granted.

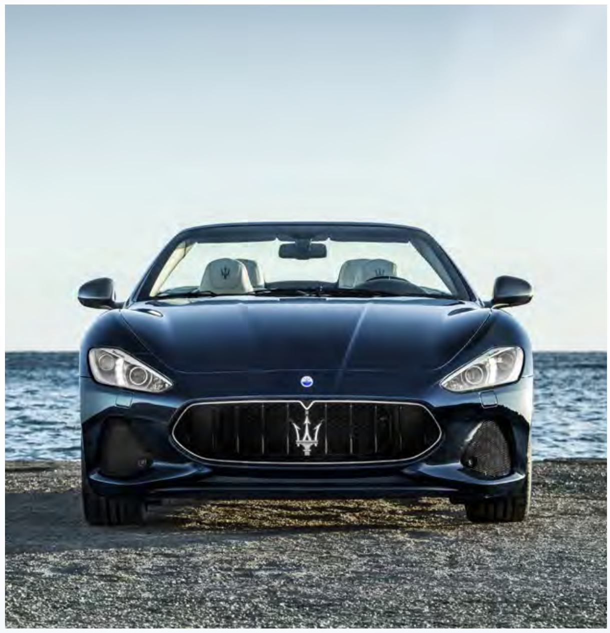
CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2017, the Group had total capital commitments of HK$9.9 million (2016: HK$11.4 million), all are authorized but not contracted for (2016: HK$5.8 million) whereas the Group had authorized and contracted for capital commitment of HK$5.6 million as at 31 December 2016. The capital commitment primarily related to addition of demo cars for Maserati business. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2017, the Group had no material contingent liabilities.

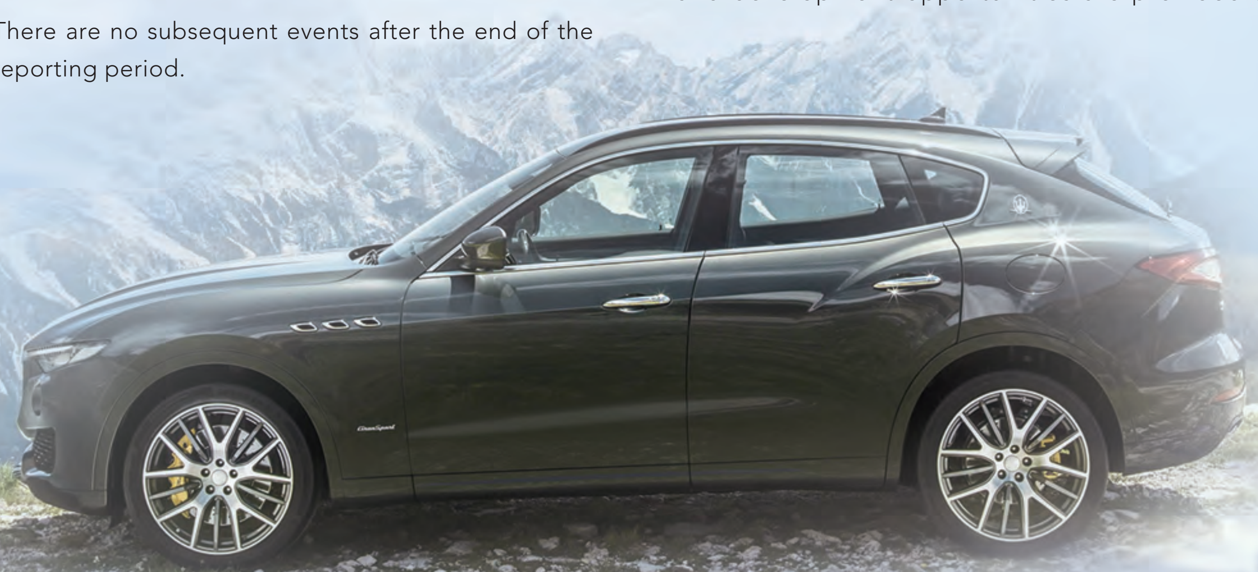
EVENT AFTER THE REPORTING PERIOD

There are no subsequent events after the end of the reporting period.



HUMAN RESOURCES

The Group employed a total of 179 employees as at 31 December 2017. 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 youth, the elderly and the disadvantaged.

BUSINESS REVIEW

Maserati

With the progressing economic recovery in Hong Kong, the overall passenger car segment maintained moderate growth of over 12% in 2017 while the sales of luxury car brand segment still suffered a visible drop of 36%. Under such circumstance, Maserati new car sales achieved over 70% increase in 2017 to reach over 300 units of cars sold, mainly benefit by the delivery of Maserati SUV, Levante diesel, good from the high market demand for luxury SUVs. To react on the change of government policy which suspended the registration of diesel private car, we have launched the Levante S GranSport with petrol engine in time. With the swift action and consistent delivery schedule, we were able to maintain seamless operation to support the business.

For after-sales operation, we undertake several enhancements in 2017. First, we have relocated our Body & Paint operation to our Shatin Service facility. This consolidation of Service, Spare Parts & Body under one roof has significantly improved our response time to our customers while reducing operating expenses.

Secondly, we have successfully completed a comprehensive After Sales operation audit conducted by Maserati in conjunction with MXL International, the official regional audit partner. The result of 98.6% is the best in the region and among the top results globally. Lastly, with a strong new car delivery results, a stable active car parc and the entire After Sales team focus on Maserati, we have increased our revenue while maintaining our best in class customer satisfaction index.

In respect of the marketing, Maserati continued to adopt comprehensive approaches to strengthen the brand image and expand our sales channels in the market. The three major car shows in the high-end shopping malls not only resulted in good number of sales, but also continued to break our best records and raise the bar for improvement. Branding and CRM activities including the Maserati Golf Invitational, exclusive dinner gathering with classic car expert and Drive & Sail event, all elevated the customer loyalty and improve the brand exposure in our targeted groups.

Customer Satisfaction Survey (CSI) remains highly positive with average score of 99 out of 100. In addition, we carried out a Best-In-Class audit program with Maserati principle with all sales and CRM process guidelines refined and consolidated. Achieving over 97% competence and being one of the top markets, this proved our outstanding services to our customers.

Pre-Delivery Inspection

Our PDI operation in both Hong Kong and China performed well and achieved satisfactory result in 2017.

In Shanghai, our PDI Center has successfully delivered all forecasted targets of Ferrari, Maserati and Alfa Romeo cars for our clients in the China market. We have completed inspections, repaired and delivered over 35,000 cars in total. This represents over 160% increase from about 13,200 cars in 2016, with remarkable contribution from our new Alfa Romeo business contract with FCA China. The PDI Center has been relocated to the current site since March

2017, increasing from the previous 10,000 square meters to the current 13,000 square meters. It has been designed with close consultation with our client in the Maserati Turin plant, renovated and equipped with state-of-the-art fully automatic conveyor belts for production line setup in light tunnels, which is an industry-first in China. Improving our PDI processes and efficiency by over 350%, we can inspect close to 140 cars per day now, compared to 40 cars per day in the old site.

In Hong Kong, we have achieved 9.6% increase in number of units delivered for Audi PDI service. With a solid cooperation to the principle, professionally trained staff and strong logistics network, we have further reduced turnaround time and improved delivery quality.

Property Investment, Financial Investments and Services

During the year, 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. In August 2017, the Group has made an indirect investment in an office building in Glasgow, Scotland that allows the Group to enjoy a stable income stream from the rental income attributable to such office building and also enable the Group to capture the upside of the recovering property market in Scotland.

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. During the year, 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 provided certain services, including new vehicle delivery and after-sales maintenance services for our customers to show our business commitment.

OUTLOOK

Looking forward to 2018, we will continue to expand the sales channel and enhance our facilities of Maserati. Innovative display with feature elements will be implemented in Wan Chai showroom to offer advanced services to the visitors and boost showroom traffic. Pre-owned business will be another major focus – new POS will be set up in the flagship showroom to create synergy effect for both new and pre-owned car business. Meanwhile, we will also expand our customer profile in the different segment by proactively tapped into cross-branding activities. We will also strive for massive brand exposure by participation in regional scale event to maintain the luxury status of Maserati. Together with the upcoming new models of Maserati, we are confident to sustain our rapid sales growth and brand position in the market.

The Group will continue looking at opportunities in the auto, real estate and financial investment with the aim of bringing long-term enhancement of value to our shareholders.

Directors and Senior Management Profiles

EXECUTIVE DIRECTORS

Mr. CHONG Tin Lung Benny

Executive Director, Executive Chairman and Chief Executive Officer

Mr. CHONG Tin Lung Benny, aged 45, has been appointed as an Executive Director of the Company with effect from 13 June 2013. He is also the Executive Chairman, Chief Executive Officer, the chairman of each of the Nomination Committee, Executive Directors' Committee and Financial Control Committee and a member of the Remuneration Committee. Mr. Chong is a director of certain subsidiaries of the Company. Mr. Chong served as the Vice-Chairman of the Company for the period from 13 June 2013 to 24 October 2013. He is the founder and chairman of VMS Investment Group Limited ("**VMSIG**"), a substantial Shareholder of the Company. Mr. Chong has been appointed as an executive director of NEWTON RESOURCES LTD. (a company listed on the Main Board of the Stock Exchange, Stock Code: 1231) with effect from 9 April 2018. Mr. Chong has accumulated over two decades of experience in the financial and investments industry. VMSIG is the holding company of a group of companies principally engaged in the provision of proprietary investments, private equity, asset management, securities brokerage and corporate finance advisory services. Mr. Chong is a Chartered Financial Analyst. He obtained a Bachelor of 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

Mr. LAM Chi Yan, aged 51, has been appointed as an Executive Director of the Company with effect from 13 June 2013. He is also a member of each of the Executive Directors' Committee, Financial Control Committee. Mr. Lam is a director of certain subsidiaries of the Company. Mr. Lam served as a consultant of AI Administration Limited, a wholly-owned subsidiary of the Company, for the period from January 2013 to June 2013. He has over 26 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. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. SANTOS Antonio Maria

Independent Non-executive Director

Dr. SANTOS Antonio Maria, aged 61, has been appointed as an Independent Non-Executive Director of the Company with effect from 1 September 2012. He is also the chairman of Remuneration Committee, a member of each of the Audit Committee and the Nomination Committee. Dr. Santos 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. He is a fellow of the Chartered Management Institute, the United Kingdom and a Certified Financial Consultant of the Institute of Financial Consultant, the United State of America. Prior to joining the business sector, Dr. Santos was a senior police officer of the Hong Kong Police Force with 30 years of distinguish service. Apart from volunteering for community services, Dr. Santos is currently a director and a shareholder of certain private companies incorporated in Hong Kong, namely Advance Tactics Service Limited (principally engaged in providing personal and commercial risk management services in Hong Kong and the Greater China region), A. M. Santos & Company Limited (principally engaged in providing financial consultancy services) and Yatu Security & Technology Holding Limited (as a holding company of its group of companies (either subsidiaries or associates) which principally engaged in smart property management, technology development and management, hire purchase and rental of safes and safety boxes, and planning and development of land projects). Dr. Santos was formerly an executive director and chairman of China Solar Energy Holdings Limited (a company listed on the Main Board of the Stock Exchange, Stock Code: 155) and an independent non-executive director of Mason Financial Holdings Limited (now known as "Mason Group Holdings Limited", a company listed on the Main Board of the Stock Exchange, Stock Code: 273). Dr. Santos is currently an independent non-executive director of Imagi International Holdings Limited (a company listed on the Main Board of the Stock Exchange, Stock Code: 585).

Mr. KONG Kai Chuen Frankie

Independent Non-executive Director

Mr. KONG Kai Chuen Frankie, aged 54, has been appointed as an Independent Non-executive Director of the Company with effect from 21 June 2013. He is also the chairman of the Audit Committee, a member of each of the Nomination Committee and the Remuneration Committee. Mr. Kong is currently the chief financial officer and company secretary of Futong Technology Development Holdings Limited (a company listed on the Main Board of the Stock Exchange, Stock Code: 465) 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 26 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

Mr. LEE Ben Tiong Leong, aged 56, has been appointed as an Independent Non-executive Director of the Company with effect from 27 February 2015. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Lee is currently the Managing Partner of IGamiX Management & Consulting Ltd., based in Macau, as well as CEO of Strategic Gaming Solutions Inc, based in Saipan. He is widely acknowledged as one of the region's experts on the Asian gaming market and is a regularly invited speaker at major gaming conferences all around the world. Mr. Lee is a multi-skilled senior gaming executive with particular focus on Asian marketing in the gaming space. With extensive gaming experience all over Asia and Australia, Mr. Lee spent the last 14 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.

SENIOR MANAGEMENT

Mr. LIN Chun Ho Simon
Chief Financial Officer

Mr. LIN Chun Ho Simon, aged 40, has been appointed as the Chief Financial Officer of the Company with effected from 1 July 2017. Mr. Lin is a director of certain subsidiaries of the Company. He joined the Group since July 2005. Mr. Lin has over 18 years of experience in accounting, financial management and auditing. Mr. Lin holds a Bachelor's Degree of Accountancy from the Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountant, a member of the Hong Kong Institute of Certified Public Accountant and an international associate of the American Institute of Certified Public Accountant.

Directors' Report

The board of directors (the "**Board**" or "**Directors**") of Auto Italia Holdings Limited (the "**Company**") is pleased to present this annual report (the "**Report**") and audited consolidated financial statements of the Company and its subsidiaries (together, the "**Group**") for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities and other particulars of the principal subsidiaries are set out in note 36 to the consolidated 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 2017, a discussion on the Group's future business development and outlook of the Group's business are provided in the sections headed "Chairman's Statement" on pages 4 to 6 and "Management Discussion and Analysis" on pages 7 to 12 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 6, "Management Discussion and Analysis" on pages 7 to 12 and "Corporate Governance Report – Risk Management and Internal Control" on pages 37 to 38, respectively.

Compliance with Laws and Regulations

As at 31 December 2017 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 Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") 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 2017, 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, the elderly 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 the shareholders of the Company (the "**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 minimize 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 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" on pages 43 to 51 of this 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 authorized dealers. These standards are also audited by them regularly and we strictly comply with.

Future development and important events after the end of the financial year

There are no important events after the end of the financial year.

The Group are constantly looking at opportunities in the auto, real estate and financial investment and will continue to seek the best risk adjusted return for our shareholders.

SEGMENTAL INFORMATION

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

FINANCIAL STATEMENTS

The financial results of the Group for the year ended 31 December 2017 and the state of the Company and the Group's affairs as at that date are set out in the financial statements on pages 58 to 143 of this Report.

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 144.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil). No interim dividend was paid during the year ended 31 December 2017 (2016: Nil).

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "**AGM**") will be held on Friday, 25 May 2018. For further details of the AGM, please refer to the notice of AGM, which will be despatched to the shareholders of the Company (the "**Shareholders**") in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the Shareholders who are entitled to attend and vote at the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 17 May 2018. The register of members of the Company will be closed from Friday, 18 May 2018 to Friday, 25 May 2018 (both days inclusive), during which period no share transfers can be registered.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company during the year are set out in note 25 to the consolidated 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 27 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 143 and page 62 of this Report respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distributions to shareholders as at 31 December 2017 comprised the share premium, share option reserve plus accumulated loss with an aggregate amount of approximately HK$170,645,000 (2016: HK$138,720,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 15 to the consolidated financial statements.

DONATIONS

During the year, the Group made charitable and other donations of HK$127,410 (2016: HK$8,800).

BANK LOAN, OVERDRAFTS AND OTHER BORROWINGS

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for 87.0% of the Group's purchases during the year, 43.0% being attributable to the largest supplier. The percentage of turnover attributable to the Group's five largest customers is less than 18.8% 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 2017. 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 2017.

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**"), Dr. SANTOS Antonio Maria and Mr. LEE Ben Tiong Leong retire from office by rotation at the forthcoming 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 15 of this report.

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.

EMOLUMENTS OF DIRECTORS

Please refer to note 12 to the consolidated financial statements of this report for details of the emoluments of the Directors.

The emoluments payable to the Directors are determined with reference to responsibilities, years of service and performance of each individual, the results of the Group and the prevailing market rate.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director and other officers of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain in or about the execution of their duties in their respective duties or in relation thereto.

The Company has taken out and maintained directors' liability insurance throughout the year ended 31 December 2017, which provides appropriate cover for the Directors and the other officers of the Company. Such provisions were in force during the course of the year ended 31 December 2017 and remained in force as of the date of this report. The insurance coverage is reviewed on an annual basis.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

At 31 December 2017, 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 ordinary shares of the Company (the "**Shares**").

(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 2017 are disclosed in the section headed "Share Option Scheme" of this Report.

DIRECTORS' INTERESTS IN ASSETS TRANSACTION AND/OR ARRANGEMENT

At 31 December 2017, 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 2017, 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.

CONNECTED TRANSACTION

The Company and its subsidiaries entered into a transaction in the ordinary course of business and on normal commercial terms which was connected transaction, the details of which is set out in the heading under "Related Party Transactions" of note 31 to the consolidated financial statements. The transaction is a de minimis transaction pursuant to Chapter 14A of the Listing Rules and is fully exempt from the reporting, announcement, circular and independent shareholders' approval requirement pursuant to Rule 14A.76 of the Listing Rules.

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 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in section of "Share Option Scheme", at no time during the year ended 31 December 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 THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, so far as is known to the Directors, 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:

Long positions in the shares and underlying shares of the Company

Name of Shareholder(s)	Number of Shares	Approximate % of the total number of issued Shares#
Gustavo International Limited	304,725,000 *(Notes 1 and 2)*	5.84%
Maini Investments Limited	304,725,000 *(Notes 1 and 2)*	5.84%
VMS Investment Group Limited ("**VMSIG**")	1,498,016,472 *(Notes 1 and 2)*	28.70%
VMS Holdings Limited ("**VMSH**")	1,498,016,472 *(Note 1)*	28.70%
Ms. MAK Siu Hang Viola	1,498,016,472 *(Notes 1 and 2)*	28.70%

Based on the total issued Shares of 5,219,541,190 at 31 December 2017.

Notes:

1. *As at 31 December 2017, 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 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. *As at 26 March 2018, 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 which is wholly-owned by Maini Investments Limited, which in turn is wholly owned by VMSIG. VMSIG is wholly-owned by Ms MAK Siu Hang Viola.*

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

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

Save as disclosed above, as at 31 December 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.

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, as at 31 December 2017 the total number of shares available for issue under the Option Scheme is 421,517,839 Shares which represents 8.08% 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 2017 were as below:

Name or category of participants	Date of grant	Exercise price *(HK$)*	Exercisable Period	As at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2017
(a) Directors								
Mr. CHONG Tin Lung Benny	16/10/2014	0.1840	16/10/2015 to 15/10/2020 *(Note 2)*	51,891,000	–	–	–	51,891,000
Mr. LAM Chi Yan	16/10/2014	0.1840	16/10/2015 to 15/10/2020 *(Note 2)*	18,700,000	–	–	–	18,700,000
	15/06/2017	0.0932	15/06/2018 to 14/06/2023 *(Note 2)*	–	18,700,000	–	–	18,700,000
Dr. SANTOS Antonio Maria	16/10/2014	0.1840	16/04/2015 to 15/04/2020 *(Note 3)*	1,500,000	–	–	–	1,500,000
Mr. KONG Kai Chuen Frankie	16/10/2014	0.1840	16/04/2015 to 15/04/2020 *(Note 3)*	1,500,000	–	–	–	1,500,000
(b) Employees in aggregate	16/10/2014	0.1840	16/10/2015 to 15/10/2020 *(Note 2)*	33,483,800	–	–	(26,267,600)	7,216,200
	20/04/2015	0.3510	20/04/2016 to 19/04/2021 *(Note 2)*	611,000	–	–	(351,000)	260,000
	15/06/2017	0.0932	15/06/2018 to 14/06/2023 *(Note 2)*	–	18,700,000	–	–	18,700,000
(c) Other eligible participants	16/10/2014	0.1840	16/10/2015 to 15/10/2020 *(Note 2)*	40,000,000	–	–	–	40,000,000
	15/06/2017	0.0932	15/06/2018 to 14/06/2023 *(Note 2)*	–	60,000,000	–	–	60,000,000
Total				**147,685,800**	**97,400,000**	**–**	**(26,618,600)**	**218,467,200**

SHARE OPTION SCHEME *(Continued)*

Notes:

(1) The closing prices per Share 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**"):*

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities, during the year ended 31 December 2017.

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 2017, Messrs. Deloitte Touche Tohmatsu was re-appointed as auditor of the Group to hold office until the conclusion of the AGM.

There has been no change in the Company's auditor in any of the preceding three years.

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 and Chief Executive Officer

Hong Kong, 28 March 2018

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 2017, except for the deviation of 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 2017, 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 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 2017 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 organized by professional firm 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, the Nomination Committee and Executive Directors' 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 revised and uploaded on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk 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 2017, 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 2017; reviewed the audited accounts and final results announcement for the years 2016 and 2017; reviewed the interim report and the interim results announcement for the six months ended 30 June 2017; 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 is the chairman of the Remuneration Committee. 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 2017, the Remuneration Committee had considered and made recommendations to the Board in relation to the Director's remuneration package, renewal of directors' service agreements and letters of appointment and grant of share option of the Company.

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.

BOARD COMMITTEES *(Continued)*

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

During the year 2017, the Nomination Committee had considered and made recommendations to the Board on the matters in relation to the independence of the INEDs, the proposed retirement of directors by rotation and re-election at the last annual general meeting of the Company in 2017, the review of the structure, size and composition of the Board, the Board diversity policy review.

Executive Directors' Committee

Currently, the members of the Executive Directors' Committee comprise Mr. CHONG Tin Lung Benny and Mr. LAM Chi Yan, the Executive Directors. The Executive Directors' Committee is formed for the management of the Company's business. The Board delegated its power to the Executive Directors' Committee to carry on the business of the Company; to negotiate, enter into and sign on behalf of the Company all contracts, tenders, agreements and distributorship; to negotiate with bankers for obtaining banking facilities, to enter into any guarantee, contract of indemnity; and to manage the Company's business activities and investments.

During the year, the Executive Directors' Committee had conducted seventeen meetings.

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 2017. The attendances of individual Director at these Board meetings and Board Committees' meetings held in 2017 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	Number of Executive Directors' Committee meetings attended/held
Executive Directors:					
Mr. CHONG Tin Lung Benny	4/4	N/A	1/1	1/1	17/17
Mr. LAM Chi Yan	4/4	N/A	N/A	N/A	17/17
INEDs:					
Dr. SANTOS Antonio Maria	4/4	2/2	1/1	1/1	N/A
Mr. KONG Kai Chuen Frankie	4/4	2/2	1/1	1/1	N/A
Mr. LEE Ben Tiong Leong	4/4	2/2	1/1	1/1	N/A

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 2017, 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 52 to 57 of this Report.

During the year of 2017, the Auditor had performed audit and non-audit services and their remuneration in respect of audit and non-audit services is HK$1,380,000 and HK$510,000 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.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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.

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 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 Chairman of the Board, the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, Directors and other management of the Company will be present to answer questions from the Shareholders.

The Company held one general meeting in 2017. The attendance of individual Director at the general meeting held in 2017 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 Auditor to attend the annual general meeting of the Company convened on 25 May 2017 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:

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

(ii) not less than one hundred Shareholders.

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

(a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:

    (i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

    (ii) in the case of any other requisition, not less than one week before the meeting; and

(b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect to the requisition (i.e. the giving of notice of resolution and/or circulation of statement).

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

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 2017. 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 2017. He is a manager of SW Corporate Services Group Limited and has more than ten 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 2017. His primary 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 2017 ("**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 of the Company (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*	• Air Emissions • Waste Management • Carbon Footprints
	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

Note: The Group did not use any packaging materials in our operations during the Reporting Period and therefore, the disclosure related to the use of packaging materials was not applicable.

(A) ENVIRONMENT

Aspect A1:

Being the exclusive dealer of world-class premium auto brand 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 reduce the impact we brought to the environment through adoption of green business practices with minimal pollution to the environment.

The 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.

Air Emissions

The major source of air emissions is the vehicles used for customer test drive, transporting parts and towing cars. During the Reporting Period, the emissions of nitrogen oxides (NOx), sulphur oxides (SOx) and particular matter (PM) were 121.68 kg, 0.95 kg and 11.06 kg respectively[1]. To control the vehicle emissions, we centralized the vehicle management and route planning to reduce the travelling distance. Also, we prefer to use the vehicles of higher fuel efficiency to reduce the fuel consumption and therefore the vehicle emissions.

Waste Management

The Group is committed to minimizing the negative environmental impact of the wastes and the proper handling and disposal of all wastes. We uphold the waste management principles of "Reduce", "Reuse", "Recycle" and "Replace" and incorporate them into our waste management policy with an aim to reduce the generation of wastes from our operations and ensure the disposal of waste materials in an environmentally responsible manner. To achieve the aims and objectives of our policy, we have developed and implemented an effective waste management programme in our operations to encourage source separation and promote reuse and recycling practices. We have also put much emphasis on enhancing the awareness of the importance of reducing waste generation through green procurement practices and administrative approaches. Furthermore, it is our policy that all of our waste handling practices shall comply with the relevant laws and regulations and shall have no harmful effect on the environment and human health.

1 The calculation of air emissions was based on the "Reporting Guidance on Environmental KPIs" of the Stock Exchange of Hong Kong Limited.

(A) ENVIRONMENT *(Continued)*

Aspect A1: *(Continued)*

Waste Management *(Continued)*

Specifically, hazardous wastes from our operations are handled and processed by government approved licensed service providers which have been regularly assessed and monitored by us to ensure their services are up to the standard. In our operations, our major hazardous wastes are motor oil and antifreeze for engines of cars for sale. During the Reporting Period, the usage of motor oil and antifreeze was amounted to 8.36 tonnes and 0.5 tonnes respectively.

The major non-hazardous waste in our operations is the paper used in our office and 1.3 tonnes of paper were used during the Reporting Period. To control this waste, we have monitored and reviewed the paper usage on a monthly basis and designed action plans such as using recycled paper and duplex printing for internal documents and replacing paper used for communication between offices with electronic communication channels.

Carbon Footprints

During the Reporting Period, the major sources of our carbon emission were the consumption of three types of energy, which were electricity, petrol and diesel, and the total amount of carbon dioxide equivalent ("**CO_2e**") emission was 892.77 tonnes[2]. To continue our efforts on lowering the carbon footprints, we have adopted various initiatives to control the resource usage and please refer to "A2 Resources Conservation" for details.

Aspect A2:

Resources Conservation

The Group conserves resources for environmental and operating efficiency purposes. The major resources used by the Group include electricity, fuels and water. To encourage participation by all levels of staff, we have put much effort in integrating business performance with environmental and resources efficiency considerations. Performance-based monitoring of the use of resources provides incentives for staff to execute and follow green practices.

2 Carbon emissions were calculated based on the "Greenhouse Gas Protocol" published by World Resources Institute and World Business Council on Sustainable Development, "Reporting Guidance on Environmental KPIs" published by the Stock Exchange of Hong Kong Limited, "Guidelines to Account for and Report on Greenhouse Gas Emission and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" by Hong Kong Environmental Protection Department and Electrical and Mechanical Services Department, "2016 Sustainability Report" issued by China Light and Power Company Limited, and "Sustainability Report 2016" issued by the Hongkong Electric Company Limited.

(A) ENVIRONMENT *(Continued)*

Aspect A2: *(Continued)*

Resources Conservation *(Continued)*

We have implemented a number of environmentally friendly measures to control our use of resources in our operations and workplaces, and have monitored closely technology advancements in the machinery, systems and infrastructures that we use to achieve better resources efficiency. For example, we have used energy efficient devices and equipment such as LED lights, energy efficient air-conditioning and air handling systems and appliances with Grade 1 energy labels. Also, we have adopted green office practices such as turning off idle lights and computers, and have conveyed green messages to employees regularly by means of email and signage to promote the concept of resource conservation. These measures assist the reduction of resources consumption comprehensively from source to end-use, thereby creating both environmental and financial benefits to the Group. Besides, regular monitoring and reporting of electricity, fuel and water usage have been in place to enable us to evaluate the resource consumption and formulate action plans to conserve the resources. The following table summarizes our resources consumption during the Reporting Period:

Resource	Consumption	Intensity
Electricity	1,225,256.51 kWh	1.768 kWh per HK$1,000 revenue
Petrol	44,890.05 L	0.065 L per HK$1,000 revenue
Diesel	17,766.70 L	0.026 L per HK$1,000 revenue
Water[Note]	2,842.97 m^3	0.004 m^3 per HK$1,000 revenue

Note: The water we consumed was purchased from the Water Supplies Department (WSD) of the Hong Kong Special Administrative Region. During the Reporting Period, there was no significant issue in sourcing water that is fit for purpose.

Our 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.

(A) ENVIRONMENT *(Continued)*

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 plans. 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

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 talents.

We have developed the human resources policy of the Group (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 according to their performance and 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 as social activities for all of our employees. In addition, we also implemented "Family-friendly Employment Practices" to help our employees balance the responsibilities of their work and families. Our Family-friendly Employment Practices includes special leave to meet employees' needs, such as compassionate leave, etc.; flexible work arrangements; living support, such as establish "Breastfeeding Friendly Workplace", organize family recreational activities, etc.

(B) SOCIAL *(Continued)*

Aspect B1: *(Continued)*

Employment Practices *(Continued)*
Meanwhile, the 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 emphasize equal employment and career development opportunities for 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 the 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/injury, work-related fatalities nor non-compliances against occupational health and safety related regulations were noted.

Aspect B3:

Staff Training
The Group acknowledges the importance for our staff to be well prepared in order to cater for the needs of our customers. Therefore, we encourage and support our employees to participate 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, the policies on examination leave and reimbursement of tuition, seminar or workshop fees has been established and implemented to support our staff's pursuit of professional training.

(B) SOCIAL *(Continued)*

Aspect B3: *(Continued)*

Staff Training *(Continued)*
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 "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 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.

Aspect B6:

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

The 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 conducted by the auto makers to ensure compliance.

(B) SOCIAL *(Continued)*

Aspect B6: *(Continued)*

Customer Services *(Continued)*
To obtain customer feedback, we have established a "Customer Satisfaction Survey" to review the sales progress, including both showroom and salesmen's services. Customers are welcome to provide comments and to score our services from the survey. The results are reported to the 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 undesirable 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.

Data Protection Principles from the Personal Data (Privacy) 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.

(B) SOCIAL *(Continued)*

Aspect B7:

Anti-Corruption and Money Laundering

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

We have established the staff code of conduct of the Group (the "**Staff Code of Conduct**") which stipulates the proper work ethics and practices and we require our staff to strictly follow the Staff Code of Conduct. 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.

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 continues to participate 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:

- 2017 Charity Walk (in March 2017) organized by the Suicide Prevention Services
- Maserati Charity Bike Ride in Inner Mongolia (in September 2017) organized by Orbis
- Actions for Love 2017 (in October 2017) organized 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 Social Caring Pledge Logo conferred by the Social Enterprise Research Institute for our 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 58 to 143, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 (the "**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 the valuation of inventories, which mainly represents cars, as a key audit matter due to the significant involvement in the 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 2017, the carrying amount of inventories was HK$151,962,000 and impairment loss of HK$1,134,000 has been recognised in profit or loss during the year. Details of the Group's inventories are set out in note 19 to the consolidated financial statements.	Our procedures in relation to the valuation of 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 workshops and warehouses and identifying 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.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and property, plant and equipment	
We identified the impairment assessment of goodwill and property, plant and equipment as a key audit matter due to the involvement of significant management's judgement and assumptions in this assessment. 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 2017, the carrying amount of goodwill and property, plant and equipment were HK$2,480,000 and HK$25,040,000 respectively. No impairment loss has been recognised in profit or loss during the year.	Our procedures in relation to the impairment of goodwill and property, plant and equipment included: • 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; • 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.

- 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 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	6	**792,873**	742,484
Cost of sales		**(548,588)**	(552,936)
Gross profit		**244,285**	189,548
Other income	7	**20,501**	26,302
Other gains and losses	8	**13,089**	(8,424)
Selling and distribution costs		**(108,587)**	(136,726)
Administrative expenses		**(80,592)**	(74,447)
Finance costs	9	**(2,004)**	(3,020)
Share of result of an associate		**4,822**	–
Profit (loss) before taxation		**91,514**	(6,767)
Taxation	10	**(5,642)**	(5,608)
Profit (loss) for the year	11	**85,872**	(12,375)
Earnings (loss) per share	13		
– Basic		**HK1.65 cent**	(HK0.24 cent)
– Diluted		**HK1.65 cent**	(HK0.24 cent)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit (loss) for the year	**85,872**	(12,375)
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 and the associate	**2,995**	232
Other comprehensive income for the year	**2,995**	3,858
Total comprehensive income (expense) for the year	**88,867**	(8,517)

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	**2017** **HK$'000**	2016 HK$'000
Non-current assets			
Investment properties	14	**55,300**	47,700
Property, plant and equipment	15	**25,040**	53,852
Goodwill	16	**2,480**	2,480
Interest in an associate	17	**62,089**	–
Rental deposits		**9,450**	16,314
Investment in preference shares	18	**–**	37,279
		154,359	157,625
Current assets			
Inventories	19	**151,962**	225,557
Trade and other receivables	20	**70,997**	93,401
Loan receivables	21	**35,220**	57,000
Pledged bank deposits	22	**47,024**	46,828
Bank balances and cash	22	**266,181**	248,839
		571,384	671,625
Current liabilities			
Trade and other payables	23	**121,094**	331,264
Tax payable		**6,205**	7,483
Bank and other borrowings	24	**103,005**	85,675
		230,304	424,422
Net current assets		**341,080**	247,203
Total assets less current liabilities		**495,439**	404,828

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	**2017** **HK$'000**	2016 HK$'000
Capital and reserves			
Share capital	25	**104,391**	104,391
Reserves		**386,294**	294,365
Total equity		**490,685**	398,756
Non-current liabilities			
Bank and other borrowings	24	**3,161**	4,905
Deferred taxation	26	**1,593**	1,167
		4,754	6,072
		495,439	404,828

The consolidated financial statements on pages 58 to 143 were approved and authorised for issue by the board of directors on 28 March 2018 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 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	Property revaluation reserve HK$'000	Translation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**85,872**	**85,872**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2,995**	**–**	**–**	**2,995**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2,995**	**–**	**85,872**	**88,867**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**3,062**	**–**	**–**	**–**	**–**	**3,062**
Transfer upon lapse of share options	**–**	**–**	**–**	**(1,699)**	**–**	**–**	**–**	**1,699**	**–**
At 31 December 2017	**104,391**	**249,345**	**2,151**	**13,491**	**19,246**	**4,134**	**166,431**	**(68,504)**	**490,685**

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017	2016
	HK$'000	HK$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**91,514**	(6,767)
Adjustments for:		
Impairment losses/(reversal of impairment losses) on trade and other receivables, net	**355**	(628)
Allowance for inventories	**1,134**	–
Depreciation of property, plant and equipment	**16,623**	22,320
Bank interest income	**(294)**	(424)
Interest expenses	**2,004**	3,020
Effective interest income from investments in convertible bonds	**–**	(4,760)
Fair value gain on investment properties	**(7,600)**	(800)
Loss on fair value change of derivative component of investments in convertible bonds	**–**	5,282
Loss (gain) on disposal/written off of property, plant and equipment	**5,166**	(414)
Gain on disposal of investment in preference shares	**(5,592)**	–
Share-based payments	**3,062**	2,104
Share of result of an associate	**(4,822)**	–
Operating cash flows before movements in working capital	**101,550**	18,933
Decrease (increase) in inventories	**72,461**	(25,100)
Decrease (increase) in trade and other receivables	**28,913**	(16,543)
Decrease in loan receivables	**21,780**	19,000
(Decrease) increase in trade and other payables	**(210,170)**	79,699
Net cash from operations	**14,534**	75,989
Income tax paid	**(6,492)**	(3,421)
NET CASH FROM OPERATING ACTIVITIES	**8,042**	72,568
INVESTING ACTIVITIES		
Interest received	**294**	1,674
Purchase of property, plant and equipment	**(16,906)**	(14,654)
Additions to investment properties	**–**	(100)
Proceeds from disposal of property, plant and equipment	**23,893**	2,722
Placement of pledged bank deposits	**(47,024)**	(33,239)
Withdrawal of pledged bank deposits	**46,828**	47,628
Redemption of convertible bonds	**–**	25,000
Investment in preference shares	**–**	(37,279)
Proceeds from disposal of investment in preference shares	**42,871**	–
Investment in an associate	**(55,053)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(5,097)**	(8,248)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES		
Interest paid	**(2,004)**	(3,014)
Bank and other borrowings raised	**299,683**	366,456
Repayment of bank and other borrowings	**(284,097)**	(388,018)
Repayment under finance leases	**–**	(74)
Interest paid on finance leases	**–**	(6)
Proceeds from exercise of share options	**–**	2,869
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**13,582**	(21,787)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**16,527**	42,533
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**248,839**	207,611
Effect of exchange rate changes	**815**	(1,305)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**266,181**	248,839
Note:		
Interest received included in operating activities	**3,639**	5,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

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

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 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.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

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

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

Amendments to HKAS 7 Disclosure Initiative *(Continued)*

Specifically, the amendments require the following 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.

A reconciliation between the opening and closing balances of these items is provided in note 24. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 24, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 - 2017 Cycle[2]

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 2021

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

New and revised 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 ("**FVTOCI**"). All other financial assets and equity investments are measured at their fair value at 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.

- 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.

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

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

HKFRS 9 "Financial instruments" *(Continued)*

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate on initial application of HKFRS 9, all financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39. However, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated losses and increase the deferred tax assets at 1 January 2018.

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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised 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 recognised in the respective reporting periods based on the existing business model of the Group.

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

New and revised 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 the 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.

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.

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

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

HKFRS 16 "Leases" *(Continued)*

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$45,329,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of HK$11,642,000 and refundable rental deposits received of HK$608,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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).

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment in an associate *(Continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

Inventories

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

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements at initial recognition.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 27 to the consolidated financial statements.

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

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

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

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

Share options granted to consultants

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant 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.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Embedded derivatives

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

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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

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 2017, the carrying amount of inventories was HK$151,962,000 (2016: HK$225,557,000), whereas the allowance for inventories recognised during the year ended 31 December 2017 was HK$1,134,000 (2016: reversal of allowance for inventories of HK$2,729,000).

Impairment of goodwill and property, plant and equipment

The recoverable amount of the Group's cash-generating unit is determined as 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 unit 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 2017, the carrying amounts of goodwill and property, plant and equipment were HK$2,480,000 (2016: HK$2,480,000) and HK$25,040,000 (2016: HK$53,852,000).

Allowances for bad and doubtful debts

When there is an 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 2017, the carrying amounts of trade and other receivables and loan receivables were HK$70,997,000 (2016: HK$93,401,000) and HK$35,220,000 (2016: HK$57,000,000) respectively, whereas the impairment loss recognised on trade and other receivables were HK$355,000 (2016: reversal of impairment loss of HK$628,000) and nil (2016: nil) respectively during the year ended 31 December 2017.

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 2017, the carrying amount of investment properties was HK$55,300,000 (2016: HK$47,700,000).

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 after-sales and pre-delivery inspection services;

(ii) Financial investments and services - Investments in securities and provision for financing and corporate finance services; and

(iii) Property investment.

5. SEGMENT INFORMATION *(Continued)*

Segment profit/loss represents the profit/loss recognised by each segment without allocation of share of result of an associate, 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.

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 2017

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE				
Group's revenue	**787,418**	**3,639**	**1,816**	**792,873**
SEGMENT RESULTS				
Segment profit	**78,009**	**8,705**	**9,353**	**96,067**
Share of result of an associate				**4,822**
Bank interest income				**294**
Unallocated corporate expenses				**(7,665)**
Finance costs				**(2,004)**
Profit before taxation				**91,514**

5. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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
Bank interest income				424
Unallocated corporate expenses				(4,779)
Finance costs				(3,020)
Loss before taxation				(6,767)

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 2017

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets				
Segment assets	**258,166**	**35,723**	**55,626**	**349,515**
Bank balances and cash				**266,181**
Interest in an associate				**62,089**
Pledged bank deposits				**47,024**
Unallocated corporate assets				**934**
Consolidated assets				**725,743**
Liabilities				
Segment liabilities	**112,748**	**82**	**634**	**113,464**
Bank and other borrowings				**106,166**
Deferred taxation				**1,593**
Tax payable				**6,205**
Unallocated corporate liabilities				**7,630**
Consolidated liabilities				**235,058**

5. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

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

– all assets are allocated to operating segment other than corporate assets, interest in an associate, 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 2017

	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	16,906	–	–	–	16,906
Depreciation of property, plant and equipment	(16,623)	–	–	–	(16,623)
Loss on disposal of property, plant and equipment	(5,166)	–	–	–	(5,166)
Fair value gain on investment properties	–	–	7,600	–	7,600
Gain on disposal of investment in preference shares	–	5,592	–	–	5,592
Allowance for inventories	(1,134)	–	–	–	(1,134)
Impairment losses on trade and other receivables	(355)	–	–	–	(355)

5. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

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	2,729	–	–	–	2,729
Loss on fair value change of derivative component of investments in convertible bonds	–	(5,282)	–	–	(5,282)
Reversal of impairment loss on trade and other receivables, net	628	–	–	–	628

5. SEGMENT INFORMATION *(Continued)*

Information about major customers

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

Geographical information

The Group's operations are mainly located in Hong Kong, the PRC (excluding Hong Kong and Macau) 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:

	2017	2016
	HK$'000	HK$'000
Hong Kong	**693,048**	664,678
The PRC	**99,825**	77,806
	792,873	742,484

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:

	2017	2016
	HK$'000	HK$'000
Hong Kong	**81,157**	117,119
The PRC	**11,113**	3,227
United Kingdom	**62,089**	–
	154,359	120,346

6. REVENUE

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

	2017 HK$'000	2016 HK$'000
Sales of goods to customers, less returns and discounts	**525,171**	530,331
Maintenance service income	**262,247**	205,579
Interest income from loan receivables	**3,639**	5,514
Rental income	**1,816**	1,060
	792,873	742,484

7. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Commission income	**6,249**	6,398
Bank interest income	**294**	424
Effective interest income from investments in convertible bonds	**–**	4,760
Forfeited deposits (Note)	**450**	6,158
Others	**13,508**	8,562
	20,501	26,302

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.

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8. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
(Impairment losses on)/reversal of trade and other receivables, net	**(355)**	628
Net foreign exchange gain (loss)	**5,418**	(4,984)
(Loss) gain on disposal/written off of property, plant and equipment	**(5,166)**	414
Loss on fair value change of derivative component of investments in convertible bonds	**–**	(5,282)
Fair value gain on investment properties	**7,600**	800
Gain on disposal of investment in preference shares	**5,592**	–
	13,089	(8,424)

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interests on bank and other borrowings	**2,004**	3,014
Interest on finance leases	**–**	6
	2,004	3,020

10. TAXATION

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong	**848**	259
Other jurisdictions	**4,194**	4,710
	5,042	4,969
Underprovision in prior years		
Other jurisdictions	**174**	196
Deferred tax (note 26)		
Current year	**426**	443
	5,642	5,608

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

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 profit (loss) before taxation per the consolidated statement of profit or loss as follows:

	2017 **HK$'000**	2016 HK$'000
Profit (loss) before taxation	**91,514**	(6,767)
Tax at the domestic income tax rate of 16.5% (2016: 16.5%) (Note)	**15,100**	(1,117)
Tax effect of expenses not deductible for tax purpose	**1,170**	2,173
Tax effect of income not taxable for tax purpose	**(3,358)**	(2,773)
Underprovision in respect of prior year	**174**	196
Tax effect of tax losses not recognised	**1,618**	4,565
Tax effect of deductible temporary differences not recognised	**–**	323
Deferred tax provided on undistributed earnings of a PRC subsidiary	**426**	443
Utilisation of tax losses previously not recognised	**(5,714)**	(52)
Utilisation of temporary differences not recognised	**(4,403)**	–
Effect of different tax rates of subsidiaries	**1,423**	1,850
Effect of share of result of an associate	**(794)**	–
Taxation for the year	**5,642**	5,608

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

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For the year ended 31 December 2017

11. PROFIT (LOSS) FOR THE YEAR

	2017	2016
	HK$'000	HK$'000
Profit (loss) for the year has been arrived at after charging:		
Auditor's remuneration	**1,380**	1,480
Depreciation of property, plant and equipment	**16,623**	22,320
Staff costs:		
Directors' emoluments		
(excluding retirement benefits scheme contributions)	**13,976**	6,682
Salaries and allowances	**55,703**	65,931
Share-based payments	**2,164**	710
Retirement benefits scheme contributions	**2,635**	2,455
	74,478	75,778
Cost of inventories recognised as expense	**504,724**	519,971
Allowance for (reversal of) inventories		
(included in cost of inventories) (Note)	**1,134**	(2,729)
Operating lease payments in respect of rented properties	**56,999**	63,041
Gross rental income from investment properties	**1,816**	1,060

Note: The reversal of allowance for the year ended 31 December 2016 is resulted from the subsequent sale of the relevant inventories.

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

The emoluments paid or payable to each of five (2016: five) 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)	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
2017						
Executive Directors						
Chong Tin Lung Benny	–	2,557	371	4,792	18	7,738
Lam Chi Yan	–	2,056	527	3,133	18	5,734
Independent Non-executive Directors ("INED"s)						
Antonio Maria Santos	180	–	–	–	–	180
Kong Kai Chuen Frankie	180	–	–	–	–	180
Lee Tiong Leong Ben	180	–	–	–	–	180
	540	4,613	898	7,925	36	14,012

Notes to the Consolidated Financial Statements

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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)	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
INEDs						
Antonio Maria Santos	180	–	–	–	–	180
Kong Kai Chuen Frankie	180	–	–	–	–	180
Lee Tiong Leong Ben	180	–	–	–	–	180
	540	3,995	1,394	753	36	6,718

Note: 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 for their services in connection with the management of the affairs of the Company and the Group. The INEDs emoluments shown above were for their services as directors of the Company.

Of the five individuals with the highest emoluments in the Group, two (2016: two) were Directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (2016: three) individuals were as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries and other benefits	**4,048**	4,737
Performance related incentive payments	**2,457**	241
Share-based payments	**418**	369
Retirement benefits scheme contributions	**54**	33
	6,977	5,380

Their emoluments were within the following bands:

	2017 **Number of** **employees**	2016 Number of employees
HK$1,500,000 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	–
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. EARNINGS (LOSS) PER SHARE

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

	2017 **HK$'000**	2016 HK$'000
Profit (loss) for the year for the purpose of basic and diluted earnings (loss) per share	**85,872**	(12,375)

	2017 **Number of shares**	2016 Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings (loss) per share	**5,219,541,190**	5,215,792,775

For the year ended 31 December 2017, the computation of diluted earnings per share does not assume the exercise of the Company's share options since the adjusted exercise price of the share options outstanding were higher than average market price of the shares for the year ended 31 December 2017.

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 2016	–
Transfer from property, plant and equipment	46,800
Additions	100
Fair value gain on investment properties	800
At 31 December 2016	47,700
Fair value gain on investment properties	7,600
At 31 December 2017	55,300

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 2017 and 2016 was under Level 3 of fair value hierarchy based on the market approach. The key input was the adjustment to the recent transaction price of 1.55% (2016: 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 for both years.

The investment properties are pledged to secure certain bank borrowings granted to the Group as set out in note 30.

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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 2016	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
Exchange adjustments	–	152	97	35	11	295
Additions	–	5,229	4,742	984	5,951	16,906
Disposals/write-off	–	(71,076)	(12,848)	(19,774)	(21,407)	(125,105)
At 31 December 2017	–	35,717	11,097	7,902	11,032	65,748
Depreciation						
At 1 January 2016	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
Exchange adjustments	–	219	70	37	5	331
Provided for the year	–	9,875	1,713	1,482	3,553	16,623
Eliminated on disposals/ write-off	–	(57,364)	(11,473)	(17,994)	(9,215)	(96,046)
At 31 December 2017	–	23,925	5,682	6,902	4,199	40,708
Carrying values						
At 31 December 2017	–	11,792	5,415	1,000	6,833	25,040
At 31 December 2016	–	30,217	3,734	3,280	16,621	53,852

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 2017, property, plant and equipment with an aggregate carrying amount of nil (2016: HK$10,691,000) are pledged to secure certain bank borrowings granted to the Group as set out in note 30.

16. GOODWILL

	HK$'000
Cost	
At 1 January 2016, 31 December 2016 and 2017	2,788
Impairment	
At 1 January 2016, 31 December 2016 and 2017	(308)
Carrying values	
At 1 January 2016, 31 December 2016 and 2017	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, the management compared the value in use of the relevant CGUs with the fair value less cost to sell of the CGUs and concluded that the value in use approximates the fair value less cost to sell. The 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 2017 and 2016, 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 the management covering a 5-year period at a discount rate of 17% (2016: 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 (2016: 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 the 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. The 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. INTEREST IN AN ASSOCIATE

	2017 **HK$'000**
Cost of investment in an associate	**55,053**
Share of post-acquisition profit	**4,822**
Exchange adjustments	**2,214**
	62,089

During the year ended 31 December 2017, the Group has entered into an agreement to subscribe for 2,740 shares, representing 27.49% of the issued share capital of Dakota RE II Limited at a total subscription price of Great British Pound ("**GBP**") 5,432,000 (approximately HK$55,053,000). Dakota RE II Limited, through its directly owned subsidiary, is holding shares in Dakota Capella LLP which hold an office building located in the United Kingdom earning rental income.

17. INTEREST IN AN ASSOCIATE *(Continued)*

Details of the Group's associate at the end of the reporting period are as follow:

Name of entity	Country of incorporation	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2017	2016	**2017**	2016	
Dakota RE II Limited	British Virgin Islands	United Kingdom	**27.49%**	–	**27.49%**	–	Property investment

Summarised financial information

Summarised financial information of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

	2017 HK$'000
Current assets	**21,569**
Non-current assets	**506,351**
Current liabilities	**(12,863)**
Non-current liabilities	**(281,986)**

	2017 HK$'000
Revenue	**11,111**
Profit and total comprehensive income for the year	**18,636**

	2017 HK$'000
Net assets of Dakota RE II Limited	**233,071**
Non-controlling interests of Dakota RE II Limited's subsidiaries	**(7,210)**
	225,861
Proportion of the Group's ownership interest in Dakota RE II Limited	**27.49%**
The Group's share of net assets and carrying amount of the Group's interest in Dakota RE II Limited	**62,089**

18. 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 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.

During the year ended 31 December 2017, the investment was sold to an independent third party at a consideration of HK$42,871,000 and a gain of HK$5,592,000 was recognised in profit or loss upon disposal.

19. INVENTORIES

	2017 HK$'000	2016 HK$'000
Finished goods	**136,646**	204,058
Spare parts	**15,316**	21,499
	151,962	225,557

Included in the above figures are finished goods of HK$1,792,000 (2016: HK$31,092,000) which have been pledged as security for bank borrowings (note 30).

20. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**56,805**	35,997
Less: Allowance for doubtful debts	**–**	–
	56,805	35,997
Purchase deposits	**–**	43,837
Utility and rental deposits	**2,192**	2,246
Prepayments and other receivables	**12,000**	11,321
	70,997	93,401

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables

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

	2017	2016
	HK$'000	HK$'000
Within 30 days	**21,614**	18,548
31 to 60 days	**13,934**	14,452
61 to 90 days	**9,250**	1,665
91 days to 1 year	**9,065**	1,210
Over 1 year	**2,942**	122
	56,805	35,997

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 2017, included in the Group's trade receivable balances are receivables with aggregate carrying amounts of HK$12,007,000 (2016: HK$1,332,000) 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.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

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

	2017	2016
	HK$'000	HK$'000
91 days to 1 year	**9,065**	1,210
Over 1 year	**2,942**	122
	12,007	1,332

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

	2017	2016
	HK$'000	HK$'000
At 1 January	**–**	641
Impairment losses recognised in profit or loss	**355**	–
Impairment losses reversed	**–**	(628)
Amounts written off as uncollectible	**(355)**	(13)
At 31 December	**–**	–

20. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2017 **HK$'000**	2016 HK$'000
United States Dollars ("**USD**")	**–**	839
Euro ("**EUR**")	**11,574**	3,592

21. LOAN RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Fixed-rate loans	**35,220**	57,000

As at 31 December 2016, outstanding loan receivables amounted to HK$26,000,000 and HK$31,000,000 both carrying interest rate of 8% per annum with maturity in November 2017 and December 2017 respectively were secured by listed securities in Hong Kong with fair values of HK$96,713,000 and HK$67,483,000 respectively. The loan receivables were repaid during the year ended 31 December 2017.

As at 31 December 2017, loan receivable amounted to HK$20,000,000 with maturity in July 2018 carrying interest rate of 8% per annum were secured by listed securities in Hong Kong with fair values of HK$45,000,000. The remaining loan receivable amounted to HK$15,220,000 with maturity in August 2018 carrying interest rate of 10% per annum were secured by second legal charge of residential properties located in Hong Kong with fair values of HK$36,825,000.

21. LOAN RECEIVABLES *(Continued)*

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.

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 0.26% per annum (2016: 0.01% to 0.25% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$47,024,000 (2016: HK$46,828,000) 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 (2016: 0.01% to 1.20% 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:

	2017 **HK$'000**	2016 HK$'000
USD	**23,111**	34,978
Renminbi ("**RMB**")	**24,101**	22,404
EUR	**2,376**	4,390

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.

	2017	2016
	HK$'000	HK$'000
Within 30 days	**17,317**	41,142
31 to 60 days	**4,819**	1,173
61 to 90 days	**3,691**	38
91 days to 1 year	**4,808**	5,801
Over 1 year	**767**	530
Trade and bills payables	**31,402**	48,684
Deposits received from customers	**43,690**	234,505
Advance payments from customers	**3,280**	4,215
Accrued charges	**31,508**	17,307
Other payables	**11,214**	26,553
	121,094	331,264

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

	2017	2016
	HK$'000	HK$'000
USD	**10,237**	39,948
EUR	**5,887**	1,830

24. BANK AND OTHER BORROWINGS

	2017	2016
	HK$'000	HK$'000
Bank borrowings	**4,900**	6,613
Trust receipt loans	**77,304**	53,156
Other borrowings from restricted licensed banks	**1,362**	20,811
Other borrowings from a financial institution	**22,600**	10,000
	106,166	90,580
Secured	**106,166**	90,580
Carrying amount repayable:		
On demand or within one year	**103,005**	85,675
More than one year, but not exceeding two years	**1,788**	1,750
More than two years, but not exceeding five years	**1,373**	3,155
	106,166	90,580
Less: Amounts due within one year shown under current liabilities	**(103,005)**	(85,675)
Amounts shown under non-current liabilities	**3,161**	4,905

As at 31 December 2017, included in the carrying amount repayable within one year is a balance of HK$101,266,000 (2016: HK$83,967,000) that contains a repayable on demand clause.

As at 31 December 2017, the bank borrowings and other borrowings from restricted licensed banks are variable-rate borrowings which bear average effective interest rate at 4.87% per annum (2016: 3.96% per annum).

The other borrowings from a financial institution of HK$10,000,000 at 31 December 2016, carrying fixed interest rate of 20% per annum with maturity in January 2017, were fully repaid in 2017. The other borrowings from a financial institution of HK$22,600,000 at 31 December 2017 are variable-rate borrowings with maturity from January 2018 to March 2018, which bear effective interest rate at 4.25%.

Details of the pledge of assets to secure the Group's banking facilities were set out in note 30.

24. BANK AND OTHER BORROWINGS *(Continued)*

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other borrowing HK$'000
At 1 January 2017	90,580
Financing cash flows	13,582
Interest expenses recognised	2,004
At 31 December 2017	106,166

25. SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Ordinary shares of HK$0.02 each:		
Authorised:		
At 1 January 2016, 31 December 2016 and 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 31 December 2016 and 2017	5,219,541,190	104,391

Note: 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.

26. DEFERRED TAXATION

As at 31 December 2017, deferred tax liabilities of HK$1,593,000 (2016: HK$1,167,000) represented the temporary differences associated with undistributed earnings of a PRC subsidiary and an amount of HK$426,000 (2016: HK$443,000) was charged to profit or loss during the year.

During the year ended 31 December 2017, unused estimated tax losses of HK$3,599,000 was lapsed due to deregistration of a subsidiary. At 31 December 2017, the Group had HK$170,816,000 (2016: HK$199,237,000) unused estimated tax losses of available for offset against future profits which is subject to agreement with the relevant tax authorities.

As at 31 December 2017, the Group had unrecognised tax losses of HK$15,231,000 (2016: HK$27,747,000) which will be expired in the year 2021. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of nil (2016: HK$26,682,000) 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.

27. SHARE OPTION SCHEMES

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

(1) eligible employees, including Directors; or

(2) suppliers or customers; or

(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.

27. SHARE OPTION SCHEMES *(Continued)*

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).

The total number of shares which may be issued upon exercise of all outstanding options granted under the 2012 Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options granted under the 2012 Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2012 Scheme without prior approval by the shareholders of the Company.

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

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

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Scheme was 218,467,200 (2016: 147,685,800) representing 4.19% (2016: 2.83%) of the shares of the Company in issue at that date.

27. SHARE OPTION SCHEMES *(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 2017 and 2016:

Name or category of participants	Date of grant	Exercise price HK$	Exercisable period	As at 1 January 2017	Granted during the year	Forfeited/ lapsed during the year (Note 5)	As at 31 December 2017	Exercisable at 31 December 2017
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	51,891,000
Mr. Lam Chi Yan	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	18,700,000	–	–	18,700,000	18,700,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	–	18,700,000	–	18,700,000	–
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	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)	33,483,800	–	(26,267,600)	7,216,200	7,216,200
	20.4.2015	0.351	20.4.2016 to 19.4.2021 (Note 2)	611,000	–	(351,000)	260,000	182,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	–	18,700,000	–	18,700,000	–
Other eligible participants	16.10.2014	0.184	16.10.2015 to 15.10.2020 (Note 2)	40,000,000	–	–	40,000,000	40,000,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	–	60,000,000	–	60,000,000	–
Total				147,685,800	97,400,000	(26,618,600)	218,467,200	
Weighted average exercise price				0.185	0.093	0.186	0.144	

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27. SHARE OPTION SCHEMES *(Continued)*

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								
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	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	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	

27. SHARE OPTION SCHEMES *(Continued)*

Notes:

(1) The closing prices per share 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 2012 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**"):

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

(3) Share options granted under the 2012 Scheme on 16 October 2014 shall vest in the grantees in accordance with the date falling on the end of the sixth month from the date of grant.

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

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

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 nil (2016: 15,590,000) share options were exercised during the year ended 31 December 2017. 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 INEDs 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 (2016: nil) share options were exercised during the year ended 31 December 2017. 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.

27. SHARE OPTION SCHEMES *(Continued)*

For the year ended 31 December 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 year ended 31 December 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 year ended 31 December 2017.

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 the 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:

	Grant date (Note d)		
	16 October 2014	20 April 2015	15 June and 4 July 2017
Grant date stock price	HK$0.179	HK$0.345	HK$0.093
Exercise price	HK$0.184	HK$0.351	HK$0.093
Risk free rate (Note a)	0.98% - 1.05%	0.94%	0.99%
Contractual life	5.50 - 6.00 years	6.00 years	6.00 years
Expected Option Period	4.5 - 5.0 years	5.00 years	5.00 years
Expected volatility (Note b)	53.33% - 60.07%	52.66%	82.35%
Expected dividend yield (Note c)	0.00%	0.00%	0.00%

27. SHARE OPTION SCHEMES *(Continued)*

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.

(d) Grant date for recognition of share-based payments.

During the year ended 31 December 2017, the Group recognised the total expense of HK$3,062,000 (2016: HK$2,104,000) in administrative expenses for year ended 31 December 2017 in relation to share options granted by the Company.

28. RETIREMENT BENEFITS SCHEMES

The relevant subsidiaries in the PRC 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 the PRC 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 the PRC, 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$2,635,000 (2016: HK$2,455,000) recognised to profit or loss represents contributions payable to these schemes by the Group during the year.

29. 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:

	2017	2016
	HK$'000	HK$'000
Within one year	**26,723**	58,307
In the second to fifth year inclusive	**18,606**	50,911
	45,329	109,218

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

The Group as lessor

Property rental income earned during the year was HK$1,816,000 (2016: HK$1,060,000). All of the properties held have committed tenants for the next three years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017	2016
	HK$'000	HK$'000
Within one year	**1,923**	1,923
In the second to fifth year inclusive	**801**	2,725
	2,724	4,648

30. 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:

	2017	2016
	HK$'000	HK$'000
Inventories	**1,792**	31,092
Pledged bank deposits	**47,024**	46,828
Property, plant and equipment	**–**	10,691
Investment properties	**55,300**	47,700
	104,116	136,311

31. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transaction with VMS Securities Limited ("**VMS Securities**"). Ms. Mak Siu Hang Viola is a controlling shareholder of VMS Securities, and together with her associate are beneficially interested in 28.7% of the Company and Mr. Chong Tin Lung Benny is a director of VMS Securities and the Chairman of the Company.

	2017	2016
	HK$'000	HK$'000
Consultancy fee to VMS Securities	**2,000**	–

Compensation of key management personnel

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

	2017	2016
	HK$'000	HK$'000
Fees	**540**	540
Salaries and other benefits	**5,948**	6,174
Performance related incentive payments	**9,846**	1,001
Share-based payments	**1,316**	1,500
Retirement benefit scheme contributions	**54**	56
	17,704	9,271

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

32. CAPITAL COMMITMENTS

At 31 December 2017, the Group has capital commitments of nil (2016: HK$5,622,000) in respect of the acquisition of property, plant and equipment contracted but not provided for.

33. DIVIDEND

No dividend was paid or proposed during year ended 31 December 2017 (2016: Nil), nor has any dividend been proposed since the end of the reporting period (2016: Nil).

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017	2016
	HK$'000	HK$'000
Financial assets		
Financial assets at cost	**–**	37,279
Loans and receivables (including cash and cash equivalents)	**413,437**	397,761
Financial liabilities		
Amortised cost	**152,061**	170,032

Financial risk management objectives and policies

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

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

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

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

	Assets		**Liabilities**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**23,111**	73,097	**10,237**	39,948
RMB	**63,703**	52,444	**–**	–
EUR	**13,950**	7,983	**5,887**	1,830

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.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

Sensitivity analysis (Continued)

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in HK$ against RMB and EUR. 5% (2016: 5%) represents the 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.

A positive number below indicates a decrease in post-tax profit for the year where HK$ strengthen 5% (2016: 5%) against RMB and EUR. For a 5% (2016: 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**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Decrease in post-tax profit	**2,667**	3,109	**337**	257

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.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk

The Group's fair value interest rate risk relates primarily to investment in preference shares, loan receivables, pledged bank deposits and certain other borrowings. 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.

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 the 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 2017 would increase/decrease by approximately HK$313,000 (2016: HK$296,000). A 50 basis points increase or decrease in variable-rate bank borrowings represents the 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 2017 would increase/decrease by approximately HK$443,000 (2016: HK$336,000).

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.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, investment in preference shares, investments in convertible bonds, loan receivables, and bank balances and pledged bank deposits for years ended 31 December 2017 and 2016.

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 investment in preference shares as at 31 December 2016 expose the Group to concentration of credit risk. At 31 December 2016, 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 is not significant.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

As at 31 December 2017 and 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, the 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 and residential properties located 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

34. 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 2017						
Non-derivative financial liabilities						
Trade and other payables	**–**	**45,896**	**–**	**–**	**45,896**	**45,896**
Bank and other borrowings	**4.51**	**104,072**	**3,196**	**–**	**107,268**	**106,166**
		149,968	**3,196**	**–**	**153,164**	**152,062**
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

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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

As at 31 December 2017, the aggregate undiscounted principal amount of bank and other borrowings with repayment on demand clause amounting to HK$101,266,000 (2016: HK$83,967,000) 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 2017	**4.66**	**102,246**	**–**	**–**	**102,246**	**101,266**
As at 31 December 2016	5.87	85,199	–	–	85,199	83,967

35. 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 represents 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.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2017 and 2016 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 2017 %	2016 %	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

36. 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 2017 %	2016 %	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##	the PRC	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	Hong Kong	Ordinary	HKD1	**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
Elite Jumbo Limited	British Virgin Island	Ordinary	USD1	**100 #**	–	Investment holding

\# These entities are indirectly held by the Company.
\## This entity is wholly foreign owned enterprises registered in the PRC.
\### This entity is disposed during the year ended 31 December 2017.

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.

37. 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:

	2017	2016
	HK$'000	HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**23,394**	23,394
Amount due from a subsidiary	**55,063**	–
	78,457	23,394
Current assets		
Other receivables	**947**	460
Amounts due from subsidiaries	**177,585**	238,601
Bank balances and cash	**76,225**	38,874
	254,757	277,935
Total assets	**333,214**	301,329
Current liabilities		
Other payables	**9,631**	5,327
Financial guarantee contracts	**–**	4,344
Total liabilities	**9,631**	9,671
Total assets less current liabilities	**323,583**	291,658
Capital and reserves		
Share capital (note 25)	**104,391**	104,391
Reserves (Note)	**219,192**	187,267
Total equity	**323,583**	291,658

37. 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 2016	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
Profit and total comprehensive income for the year	–	–	–	–	28,863	28,863
Recognition of equity settled share-based payments	–	–	3,062	–	–	3,062
Transfer upon lapse of share options	–	–	(1,699)	–	1,699	–
At 31 December 2017	249,345	2,151	13,491	46,396	(92,191)	219,192

Five-year Financial Summary

	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue from continuing operations	**792,873**	742,484	973,140	1,095,363	1,182,788
Profit (loss) for the year	**85,872**	(12,375)	27,756	36,305	(55,662)
Attributable to:					
Owners of the Company	**85,872**	(12,375)	27,756	27,576	(48,042)
Non-controlling interests	**–**	–	–	8,729	(7,620)
	85,872	(12,375)	27,756	36,305	(55,662)
Assets and liabilities					
Total assets	**725,743**	829,250	775,878	763,981	692,679
Total liabilities	**(235,058)**	(430,494)	(373,578)	(404,885)	(535,095)
Net assets	**490,685**	398,756	402,300	359,096	157,584
Equity attributable to owners of the Company	**490,685**	398,756	402,300	359,096	148,866
Non-controlling interests	**–**	–	–	–	8,718
Total equity	**490,685**	398,756	402,300	359,096	157,584