AUTO ITALIA

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

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

2018 Interim Report

BEYOND
TO THE NEW ERA

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Executive Directors' Committee

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

COMPANY SECRETARY

Mr. WONG Yat Tung (resigned on 30 May 2018)
Ms. KWONG Yin Ping Yvonne (appointed on 30 May 2018)

AUTHORISED REPRESENTATIVES

Mr. CHONG Tin Lung Benny
Mr. WONG Yat Tung (resigned on 30 May 2018)
Ms. KWONG Yin Ping Yvonne (appointed on 30 May 2018)

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Corporate Information

PRINCIPAL OFFICE IN HONG KONG
Unit C, Ground Floor
2 Yuen Shun Circuit
Siu Lek Yuen
Shatin, Hong Kong
Tel: (852) 2365 0269 or (852) 2627 8931
Fax: (852) 2363 1437 or (852) 2469 9927
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
Shirley Lau & Co. LLP (in association with CMS Hashe Sigle, Hong Kong LLP)
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

Management Discussion and Analysis

FINANCIAL REVIEW

Car Division

Revenue

For the first half of 2018, the Car Division's revenue decreased by 52% to HK$187.5 million (2017: HK$390.7 million).

In Mainland China, the revenue generated from our Pre-Delivery Inspection ("**PDI**") services in Shanghai decreased to HK$24 million (2017: HK$39.8 million) mainly caused by the decrease of number of Maserati and Alfa Romeo cars.

The overall revenue from Hong Kong recorded a drop of 53.4% to HK$163.5 million (2017: HK$350.9 million) primarily due to the close down of Ferrari business in September 2017. Besides, the revenue from Maserati business recorded a decrease of 6.5% to HK$150.2 million (2017: HK$160.7 million) mainly affected by the decrease of new car unit sales.

Cost of Sales and Gross Profit

Gross profit margin decreased by 0.9 percentage point to 27.8%. Our gross profit decreased from HK$112 million to HK$52.1 million owing to the decrease in car unit sales of Ferrari and Maserati in Hong Kong operation as well as the decrease of number of Maserati and Alfa Romeo cars for PDI service in Mainland China.

Other Income

For the six months ended 30 June 2018, other income amounted to HK$10.8 million (2017: HK$12.9 million). The net decrease of HK$2.1 million was mainly caused by the decrease of supports from suppliers included subsidies, waiver of marketing and clawback charges.

Other Gains and Losses

Other gains and losses amounted to a net gain of HK$2.1 million (2017: gain of HK$4.4 million) which included net foreign exchange gain of HK$2 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses during the period aggregated to HK$58.2 million (2017: HK$92 million), which accounted for 31% (2017: 23.5%) of revenue. The net decrease of HK$33.8 million was mainly due to a decrease in staff related cost resulting from our cost optimisation, restructuring plan and termination with Ferrari.

Finance Costs

Finance costs during the period were decreased to HK$1 million (2017: HK$1.5 million).

Financial Investments and Services and Property Investment Divisions

Operating Results

During the period, the revenue of Financial Investments and Services Division increased to HK$4.6 million (2017: HK$1.4 million), representing an increase of HK$3.2 million. The increase was mainly due to the expansion of our loan portfolio. The loan receivables increased from HK$35.2 million as at 31 December 2017 to HK$91.8 million as at 30 June 2018. Segment profit increased to HK$3.3 million (2017: HK$1.4 million).

Furthermore, the Property Investment Division recorded a rental income of HK$0.9 million for leasing the property of the Group to a third party (2017: HK$0.9 million) and recorded a fair value gain of HK$2.5 million on the investment properties (2017: HK$5.2 million). In the third quarter of 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. For the six months ended 30 June 2018, the share of profit from such investment included the share of the fair value gain of the property was HK$4.9 million (2017: HK$ Nil).

Profit Attributable to Shareholders

Profit attributable to shareholders of the Company for the six months ended 30 June 2018 was HK$11.7 million (31 December 2017: HK$35.4 million). It was primarily caused by the decrease in new car sales in Hong Kong and decrease in income from the provision of PDI services in Mainland China.

Liquidity and Financial Resources

Cash Flow

During the period, the Group financed its operations primarily through cash generated from the Group's operations. We have made a net repayment of bank borrowings of HK$100.3 million.

Cash and Cash Equivalents

As at 30 June 2018, the Group had cash and cash equivalents (including pledged bank deposits) of HK$191.2 million as compared with HK$313.2 million as at 31 December 2017, which were mainly denominated in Hong Kong dollars (as to 74%), Renminbi (as to 25%) and U.S. dollars (as to 1%).

Bank and Other Borrowings

As at 30 June 2018, the Group had bank loans totalling HK$17 million (31 December 2017: HK$106.2 million), of which HK$2.3 million was repayable more than one year. Net cash position as at 30 June 2018 was HK$174.2 million (31 December 2017: HK$207 million). The Group's debt to equity ratio for the six months ended 30 June 2018 improved to 3.4% from 21.6% for the year ended 31 December 2017 based on the total of current and non-current bank and other borrowings of HK$17 million (31 December 2017: HK$106.2 million) and total equity of HK$500 million (31 December 2017: HK$490.7 million).

Loan Receivables

During the period, the Group had engaged in financial investments and services business, which included the provision of loan financing. As at 30 June 2018, the Group had outstanding loan lent to customer totalling HK$91.8 million (31 December 2017: HK$35.2 million), which carry on interest rate range from 8% to 18% per annum and were repayable within twelve months.

Pledge of Assets

As at 30 June 2018, certain of the Group's properties, bank deposits, inventories totaling HK$112.1 million (31 December 2017: HK$104.1 million) were pledged as securities for relevant bank loans and other bank facilities granted.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no material capital commitment (31 December 2017: HK$9.9 million).

As at 30 June 2018, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

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

HUMAN RESOURCES AND CHARITY

As at 30 June 2018, the Group employed a total of 153 employees in Hong Kong and Mainland China. The Group believes that employees are all pivotal to our development and representing the most valuable asset for supporting our sustainable business growth.

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

BUSINESS REVIEW

Maserati

With the continued momentum in global economic expansion and strength in domestic demand, Hong Kong's economy expanded notably in the first half of 2018. For the first five months taken together, market share of Maserati in its segment has increased from 18.3% (2017 full year) to 20% (as at May 2018) while Levante and Ghibli range played the significant role in its particular segment with 68% and 45% market share respectively.

Despite the ban on diesel passenger car in third quarter of 2017 which affected the sales of Levante last year, the launch of Levante S GranSport sustained the presence of Maserati in the luxury SUV segment and contributed to the majority of overall Maserati sales. Variety sales campaigns and motor show successfully maintained the sales of Ghibli and Quattroporte compared with same period of last year. With the new version of GranTurismo, we over-achieved the first half year sales volume of 2017 in the first half of 2018. Overall sales in 2018 is expected to rise by 30% as new model variant will be available in the second half of 2018.

In marketing aspect, Maserati first debuted in the Longines Masters of Hong Kong in first quarter of 2018 to reinforce brand positioning by gaining presence in world-class luxury event. The brand also conducted prospecting activities for client acquisition simultaneously. Maserati Golf invitational in second quarter of 2018 not only created a platform to gather Maserati owners and enhance brand loyalty but also a chance to explore sales opportunities by collaboration with other luxury partners.

After refined the local operation guidelines in accordance with Maserati headquarter requirements through the Best-in-class workshop, we continued to provide factory standard experience to prospect and customers which proved by 99% overall score in the 2018 revisit. Maserati headquarter launched a standard post-sales customer satisfaction survey in second quarter of 2018 to all new customers around the globe and we achieved the top of region score of 96.9%.

Aftersales

Various Service campaigns have been launched since the beginning 2018 and have achieved promising result. Sales of extended warranty package in the first half of 2018 has achieved 91% of 2017 full year sales and this contributed a big growth for company's financial income and greatly improved customer retention. Sales revenue of Body & Paint division in the first six months of 2018 was increased by 26% compared the same period of last year which leads an overall growth of aftersales team by 11%. With upgrade on online customer satisfaction survey (CSI) platform for aftersales service, overall response rate was improved from 84% in 2017 to 95% in first half 2018.

Pre-Delivery Inspection

The growth of PDI operation in Hong Kong is steady and on the right track. Besides PDI for Audi, we expanded our business by providing Body & Paint and cleaning service for another European brand since the beginning of 2018 and this had maximized our capacity and increased revenue.

Our Shanghai PDI center remains high capacity utilization and sustained the business with service for all Ferrari, Maserati and Alfa Romeo in China market.

Property Investment, Financial Investments and Services

During the period, the Group continued to engage in property investment business, financing business and financing-related consultancy services.

The Group mainly provides short to medium-term financing, normally not exceeding 12 months, to our clients. The loan portfolio of the Group continue to expand during the period, the loan receivable balance increased from HK$35.2 million as at 31 December 2017 to HK$91.8 million as at 30 June 2018 and the revenue from financial investments and services business increased to HK$4.6 million (2017: HK$1.4 million). Despite the expansion of the loan portfolio, the Group continue adopt a prudent and cautious approach when conducting our financing business.

For the property investment business, the Group completed the indirect investment in an office building in Glasgow in third quarter of 2017 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.

OUTLOOK

We are continuing in our efforts to strive our market share and position in the luxury segment in 2018 with Maserati's new model variants launch and expect a further year-on-year increase. With the support from both tactical and branding focus marketing activities, we assure on-going brand presence and awareness for business growth.

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.

Corporate Governance and Other Information

The board (the "**Board**") of directors (the "**Directors**") of Auto Italia Holdings Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

DISCLOSURE OF INTERESTS

Directors' interests and chief executive's interests and short positions in Shares, underlying Shares and debentures

As at 30 June 2018, the interests and short positions of each Director and chief executive of the Company (the "**Chief Executives**") in any Shares (defined as below), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), to be notified to the Company and the Stock Exchange 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**"); and

(a)(ii) none of the Directors held any short positions in the Shares; and

(b) beneficial interests and short positions in underlying Shares of equity derivatives of the Company as at 30 June 2018 are disclosed in the section headed "Share Option Scheme" of this Report.

Save as disclosed in the section headed "Share Option Scheme" of this Report, as at 30 June 2018, none of the Directors or the Chief Executives or their respective associates had or was deemed to have any interests or short positions in any Shares, underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangement for Directors to acquire Shares or debentures

Save as disclosed in the section headed "Share Option Scheme" of this Report, at no time during the six months ended 30 June 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and the Chief Executives (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 any of 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 30 June 2018, so far as is known to the Directors, the persons or corporations (other than the Directors or the Chief Executives) 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

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

Based on the total number of issued Shares of 5,219,541,190 as at 30 June 2018.

Note: *VMSIG and parties acting in concert with it are interested in an aggregate of 1,498,016,472 Shares, of which 1,193,291,472 Shares are held by VMSIG and 304,725,000 Shares are held by Gustavo International Limited (a company 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.*

Save as disclosed above, as at 30 June 2018, the Company had not been notified by any persons or corporations (other than the Directors or the Chief Executives) 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.

Details of the movements in outstanding Share options, which have been granted under the Option Scheme, during the six months ended 30 June 2018 were as below:

Name or category of participants	Date of grant	Exercise price *(HK$)*	Exercisable period	As at 1 January 2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	As at 30 June 2018
(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)*	7,216,200	–	–	–	7,216,200
	20/04/2015	0.3510	20/04/2016 to 19/04/2021 *(Note 2)*	260,000	–	–	–	260,000
	15/06/2017	0.0932	15/06/2018 to 14/06/2023 *(Note 2)*	18,700,000	–	–	–	18,700,000

Name or category of participants	Date of grant	Exercise price (HK$)	Exercisable period	As at 1 January 2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	As at 30 June 2018
(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				**218,467,200**	**-**	**-**	**-**	**218,467,200**

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.*

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 six months ended 30 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Maintaining an effective corporate governance framework is one of the priorities of the Company. In the opinion of the Directors, the Company had complied with all the code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018, except Code Provisions A.2.1 of the CG Code.

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

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.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as standard for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors by the Company, the Directors confirmed that they have complied with the standards set out in the Model Code throughout the six months ended 30 June 2018.

CHANGES IN INFORMATION OF DIRECTORS

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

The basic salary of Mr. CHONG Tin Lung Benny, an executive Director, was adjusted from HK$3,000,000 per annum to HK$3,135,000 per annum with effect from 1 January 2018.

The basic salary of Mr. LAM Chi Yan, an executive Director, was adjusted from HK$2,034,492 per annum to HK$2,126,052 per annum with effect from 1 January 2018.

Dr. SANTOS Antonio Maria, an independent non-executive Director of the Company (the "**INED**"), entered into an old letter of appointment with the Company for two years commencing from 1 September 2016 to 31 August 2018. On 29 August 2018, the Company entered into a new letter of appointment with Dr. Santos for a term of two years commencing from 1 September 2018, and he is subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company. Dr. Santos is entitled to an annual Director's fee of HK$180,000, which was determined by the Board with reference to the recommendation from the Remuneration Committee (defined as below) and his duties, responsibilities and the prevailing market situation.

Mr. KONG Kai Chuen Frankie, INED, has resigned as the company secretary of Futong Technology Development Holdings Limited (a company listed on the main board of the Stock Exchange, Stock Code: 465, the "**Futong Tech**"), with effect from 27 June 2018 and has ceased to be the chief financial officer of Futong Tech in July 2018.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1).

THE BOARD

The Directors who held office during the six months ended 30 June 2018 and up to the date of this Report are:

Executive Directors

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

INEDs

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

BOARD COMMITTEES

Audit Committee

The members of the audit committee of the Company (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.

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.

Remuneration Committee

The members of the remuneration committee of the Company (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 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.

Nomination Committee

The members of the nomination committee of the Company (the "**Nomination 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. Mr. CHONG Tin Lung Benny is the chairman of the Nomination Committee.

The Nomination Committee is primarily responsible for making recommendations to the Board on appointment of directors regarding the qualifications and competency of the candidates.

Executive Directors' Committee

The members of the executive Directors' committee of the Company (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 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.

REVIEW OF INTERIM RESULTS

The interim results of the Group for the six months ended 30 June 2018 have not been audited but have been reviewed by Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants, the Company's auditor. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018.

By order of the Board

CHONG Tin Lung Benny
Executive Chairman and Chief Executive Officer

Hong Kong, 29 August 2018

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF AUTO ITALIA HOLDINGS LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Auto Italia Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 20 to 56, which comprises the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2018

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Revenue from goods and services	3	**187,514**	390,733
Rental income		**908**	908
Interest income		**4,558**	1,439
Total revenue	4	**192,980**	393,080
Cost of sales and services		**(135,376)**	(278,778)
Gross profit		**57,604**	114,302
Other income		**10,808**	12,885
Other gains and losses	5	**4,435**	9,574
Selling and distribution costs		**(37,959)**	(59,198)
Administrative expenses		**(25,417)**	(35,011)
Finance costs	6	**(1,043)**	(1,600)
Share of result of an associate		**4,930**	–
Profit before taxation		**13,358**	40,952
Taxation	8	**(1,676)**	(5,558)
Profit for the period	7	**11,682**	35,394
Earnings per share			
– Basic	9	**HK0.22 cent**	HK0.68 cent
– Diluted	9	**HK0.22 cent**	HK0.68 cent

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period	**11,682**	35,394
Other comprehensive expense		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	**(1,909)**	(204)
Reclassification adjustment upon liquidation of foreign operation	**(2,061)**	–
Other comprehensive expense for the period	**(3,970)**	(204)
Total comprehensive income for the period	**7,712**	35,190

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Non-current assets			
Investment properties	11	**57,800**	55,300
Property, plant and equipment	12	**28,515**	25,040
Goodwill		**2,480**	2,480
Interest in an associate		**66,013**	62,089
Rental deposits		**9,399**	9,450
		164,207	154,359
Current assets			
Inventories		**84,291**	151,962
Trade and other receivables	13	**52,288**	70,997
Loan receivables	14	**91,785**	35,220
Pledged bank deposits		**46,712**	47,024
Bank balances and cash		**144,442**	266,181
		419,518	571,384
Current liabilities			
Trade and other payables	15	**40,875**	121,094
Contract liabilities		**19,093**	–
Tax payable		**5,150**	6,205
Bank and other borrowings	16	**14,693**	103,005
		79,811	230,304
Net current assets		**339,707**	341,080
Total assets less current liabilities		**503,914**	495,439

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Capital and reserves			
Share capital	17	**104,391**	104,391
Reserves		**395,652**	386,294
Total equity		**500,043**	490,685
Non-current liabilities			
Bank and other borrowings	16	**2,278**	3,161
Deferred taxation		**1,593**	1,593
		3,871	4,754
		503,914	495,439

Approved by the Board of Directors on 29 August 2018 and are signed on its behalf by:

CHONG Tin Lung Benny
DIRECTOR

LAM Chi Yan
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Revaluation reserve HK$'000	Translation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2017 (audited)	**104,391**	**249,345**	**2,151**	**13,491**	**19,246**	**4,134**	**166,431**	**(68,504)**	**490,685**
Adjustments (see note 2)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(402)**	**(402)**
At 1 January 2018 (restated)	**104,391**	**249,345**	**2,151**	**13,491**	**19,246**	**4,134**	**166,431**	**(68,906)**	**490,283**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,682**	**11,682**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**(3,970)**	**–**	**–**	**(3,970)**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**–**	**–**	**(3,970)**	**–**	**11,682**	**7,712**
Recognition of equity settled share-based payments	**–**	**–**	**–**	**2,048**	**–**	**–**	**–**	**–**	**2,048**
At 30 June 2018 (unaudited)	**104,391**	**249,345**	**2,151**	**15,539**	**19,246**	**164**	**166,431**	**(57,224)**	**500,043**
At 1 January 2017 (audited)	104,391	249,345	2,151	12,128	19,246	1,139	166,431	(156,075)	398,756
Profit for the period	–	–	–	–	–	–	–	35,394	35,394
Other comprehensive expense for the period	–	–	–	–	–	(204)	–	–	(204)
Total comprehensive (expense) income for the period	–	–	–	–	–	(204)	–	35,394	35,190
Recognition of equity settled share-based payments	–	–	–	735	–	–	–	–	735
Transfer upon lapse of share options	–	–	–	(391)	–	–	–	391	–
At 30 June 2017 (unaudited)	104,391	249,345	2,151	12,472	19,246	935	166,431	(120,290)	434,681

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movement in working capital	**12,469**	44,510
Decrease in inventories	**67,671**	61,288
Decrease in trade and other payables	**(36,529)**	(94,425)
(Increase) decrease in loan receivables	**(56,575)**	31,000
Decrease in trade and other receivables	**18,346**	10,560
Decrease in contract liabilities	**(24,597)**	–
Other movements in operating activities	**(2,731)**	(7,033)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(21,946)**	45,900
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(11,762)**	(13,572)
Proceeds from disposal of property, plant and equipment	**2,550**	15,515
Withdrawal of pledged bank deposits	**–**	1,492
Other investing cash flows	**200**	153
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(9,012)**	3,588
FINANCING ACTIVITIES		
Bank and other borrowings raised	**11,145**	159,953
Repayment of bank and other borrowings	**(100,340)**	(212,489)
Other financing cash flows	**(1,043)**	(1,600)
NET CASH USED IN FINANCING ACTIVITIES	**(90,238)**	(54,136)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(121,196)**	(4,648)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**266,181**	248,839
Effect of exchange rate changes	**(543)**	(756)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**144,442**	243,435

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

Except for the new HKFRSs that have been applied in accordance with the relevant transition provisions in the respective standards which results in changes in accounting policies and amounts reported as described below, the application of other amendments to HKFRSs and the interpretation in the current interim period has had no material effect on the amounts reported set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 *Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 *(Continued)*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group recognises revenue from the following major sources under HKFRS 15:

- Trading of cars and related accessories
- Provision of after sales and pre-delivery inspection services

For sales of cars and related accessories, revenue is recognised when the customer obtains the control of the cars and related accessories, being when the cars and related accessories are handed over to the customers and the titles of cars are passed to the customers.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 *(Continued)*

For revenue from provision of after sales and pre-delivery inspection services, revenue is recognised when the customers simultaneously receives and consumes the benefits provided by the Group's performance, being the time when the Group carries out repair and maintenance and inspection works over the cars.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or input to the satisfaction of a performance obligation relation to the total expected input to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as at 31 December 2017 HK$'000	Reclassification HK$'000	**Carrying amounts under HKFRS 15 as at 1 January 2018 HK$'000**
Current Liabilities			
Trade and other payables	121,094	(43,690)	**77,404**
Contract liabilities	–	43,690	**43,690**

Note: As at 1 January 2018, advances from customers of HK$43,690,000 previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported HK$'000	**Adjustments** HK$'000	**Amounts without application of HKFRS 15** HK$'000
Current Liabilities			
Trade and other payables	40,875	19,093	59,968
Contract liabilities	19,093	(19,093)	–

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets, and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Classification and measurement of financial assets (Continued)

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Classification and measurement of financial assets (Continued)

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. All financial assets continue to be measured on the same basis as were prevailing measured under HKAS 39.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan receivables, pledged bank deposit and bank balance). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model (Continued)

Significant increase in credit risk *(Continued)*

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the a foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" (as per globally understood definitions).

The Group also considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.2 Summary of effects from initial application of HKFRS 9

The table below illustrates the measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and loan receivables. To measure the ECL, trade receivables are assessed individually based on its own credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of loan receivables, pledged bank deposits and bank balances are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of HK$402,000 has been recognised against accumulated losses. The additional loss allowance is charged against the respective asset.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.2 Summary of effects from initial application of HKFRS 9 *(Continued)*

All loss allowances for financial assets including trade receivables and loan receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables HK$'000	**Loan receivables** HK$'000	**Accumulated losses** HK$'000
At 31 December 2017 – HKAS 39	56,805	35,220	(68,504)
Impairment under ECL model	(392)	(10)	(402)
At 1 January 2018	56,413	35,210	(68,906)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 (audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	**1 January 2018 (Restated) HK$'000**
Current assets				
Trade and other receivables	70,997	–	(392)	**70,605**
Loan receivables	35,220	–	(10)	**35,210**
Current liabilities				
Trade and other payables	121,094	(43,690)	–	**77,404**
Contract liabilities	–	43,690	–	**43,690**
Capital and reserves				
Reserves	(68,504)	–	(402)	**(68,906)**

3. REVENUE FROM GOODS AND SERVICES

	For the six months ended 30 June 2018
Disaggregation of revenue	
Trading of cars and related accessories	**126,069**
Provision of after sales and pre-delivery inspection services	**61,445**
Total	**187,514**
Geographical markets	
Hong Kong	**163,467**
The People's Republic of China (excluding Hong Kong and Macau)	**24,047**
Total	**187,514**
Timing of revenue recognition	
A point of time	**126,069**
Over time	**61,445**
Total	**187,514**

4. SEGMENT INFORMATION

During the six months ended 30 June 2018, the Group has three operating segments under HKFRS 8 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 – Provision for financing and corporate finance services; and

(iii) Property investment.

Segment profit represents the profit earned 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 chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

4. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the six months ended 30 June 2018 (unaudited)

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE				
Group revenue	**187,514**	**4,558**	**908**	**192,980**
SEGMENT RESULTS				
Segment profit	**6,606**	**3,291**	**3,326**	**13,223**
Share of result of an associate				**4,930**
Interest income				**200**
Unallocated corporate expenses				**(3,952)**
Finance costs				**(1,043)**
Profit before taxation				**13,358**

For the six months ended 30 June 2017 (unaudited)

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

4. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

At 30 June 2018 (unaudited)

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets				
Segment assets	175,417	92,382	58,073	325,872
Bank balances and cash				144,442
Interest in an associate				66,013
Pledged bank deposits				46,712
Unallocated corporate assets				686
Consolidated assets				583,725
Liabilities				
Segment liabilities	57,742	319	644	58,705
Bank and other borrowings				16,971
Deferred taxation				1,593
Tax payable				5,150
Unallocated corporate liabilities				1,263
Consolidated liabilities				83,682

4. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

At 31 December 2017 (audited)

	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

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. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Impairment loss on trade and other receivables, net	**(22)**	(134)
Gain on disposal of property, plant and equipment	**155**	2,392
Net foreign exchange gain	**1,802**	2,116
Fair value gain on investment properties	**2,500**	5,200
	4,435	9,574

6. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interests on bank and other borrowings	**1,043**	1,600

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**5,843**	8,834

8. TAXATION

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	**1,615**	2,617
Other jurisdictions	**61**	2,941
	1,676	5,558

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the six months ended 30 June 2018, Hong Kong profits tax is calculated at 16.5% and taken into consideration the two-tiered profits tax rates regime. For the six months ended 30 June 2017, Hong Kong profits tax was calculated at 16.5% of the estimated assessable profits.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the both periods and the service income for the non-PRC subsidiary with permanent establishment in the PRC is subject to deemed profit rate of 30%.

9. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Profit for the period for the purpose of calculating basic and diluted earnings per share	**11,682**	35,394

9. EARNINGS PER SHARE *(Continued)*

Number of shares

	For the six months ended 30 June	
	2018	2017
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**5,219,541,190**	5,219,541,190
Effect of dilutive potential ordinary shares:		
Share options	**731,535**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**5,220,272,725**	5,219,541,190

The computation of diluted earnings per share for the six months ended 30 June 2017 does not assume the exercise of the Company's share options since the exercise prices of share options outstanding were higher than average market price of the shares for the six months ended 30 June 2017.

10. DIVIDEND

No dividend was paid, declared during both periods or has any dividend been proposed since the end of the reporting period.

11. INVESTMENT PROPERTIES

	HK$'000
Fair value	
At 1 January 2017	47,700
Fair value gain on investment properties	7,600
At 31 December 2017	55,300
Fair value gain on investment properties	2,500
At 30 June 2018	57,800

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

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group spent HK$11,762,000 (for the six months ended 30 June 2017: HK$13,572,000) on the acquisition of property, plant and equipment. The Group also disposed of property, plant and equipment with a carrying amount of HK$2,395,000 (for the six months ended 30 June 2017: HK$16,087,000) resulting in a gain of HK$155,000 (for the six months ended 30 June 2017: HK$2,392,000).

13. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade receivables	**47,202**	56,805
Less: Allowance for doubtful debts	**(392)**	–
	46,810	56,805
Utility and rental deposits	**1,262**	2,192
Prepayments and other receivables	**4,216**	12,000
	52,288	70,997

13. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
0 – 30 days	**16,418**	21,614
31 – 60 days	**4,331**	13,934
61 – 90 days	**8,517**	9,250
91 days to 1 year	**15,042**	9,065
Over 1 year	**2,502**	2,942
	46,810	56,805

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

14. LOAN RECEIVABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Fixed-rate loans	**91,795**	35,220
Less: Allowance on loan receivables	**(10)**	–
	91,785	35,220

14. LOAN RECEIVABLES *(Continued)*

As at 30 June 2018, loan receivable amounted to HK$20,000,000 (31 December 2017: HK$20,000,000) with original maturity in July 2018, further extended to July 2019, carrying interest rate of 8% per annum was secured by listed securities in Hong Kong with fair values of HK$40,200,000 (31 December 2017: HK$45,000,000). Loan receivable amounted to HK$15,220,000 (31 December 2017: HK$15,220,000) with maturity in August 2018 carrying interest rate of 10% per annum was secured by second legal charge of residential properties located in Hong Kong with fair values of HK$43,227,000 (31 December 2017: HK$36,825,000).

Furthermore, loan receivables HK$56,565,000 with interest rate ranged from 8% per annum to 18% per annum and maturity date ranged from July 2018 to December 2018 were lent out to independent third parties during the six months ended 30 June 2018, out of which loan receivables of HK$20,000,000 and HK$25,325,000 were secured by listed securities in Hong Kong with fair values of HK$41,035,000 and unlisted shares respectively. The remaining loan receivable was unsecured.

15. TRADE AND OTHER PAYABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade payables	**9,903**	31,402
Deposits received from customers	**–**	43,690
Advance payments from customers	**2,822**	3,280
Accrued charges	**22,333**	31,508
Other payables	**5,817**	11,214
	40,875	121,094

15. TRADE AND OTHER PAYABLES *(Continued)*

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

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
0 – 30 days	**3,983**	17,317
31 – 60 days	**812**	4,819
61 – 90 days	**1,112**	3,691
91 days to 1 year	**3,227**	4,808
Over 1 year	**769**	767
	9,903	31,402

16. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained several new bank loans from various banks and a financial institution amounting to approximately HK$11,145,000 (for the six months ended 30 June 2017: HK$159,953,000) and repaid approximately HK$100,340,000 (for the six months ended 30 June 2017: HK$212,489,000). The new loans carry interest at variable market rates ranging from 4.09% to 5.42% per annum (for the six months ended 30 June 2017: 2.02% to 4.33% per annum).

17. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.02 each:		
Authorised		
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	17,500,000,000	350,000
Issued and fully paid		
At 1 January 2017, 30 June 2017, 31 December 2017 and 30 June 2018	5,219,541,190	104,391

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

18. OPERATING LEASE COMMITMENTS

The Group as lessees

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

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within one year	**19,208**	26,723
In the second to fifth year (inclusive)	**10,315**	18,606
	29,523	45,329

Leases for rented premises are negotiated for terms of 1 to 13 years with fixed rental.

19. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Key management personnel compensation (Note)	**4,150**	4,730

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

20. SHARE-BASED PAYMENTS

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

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

	Number of share options
Outstanding as at 1 January 2018 and 30 June 2018	218,467,200

20. SHARE-BASED PAYMENTS *(Continued)*

During the year ended 31 December 2014, 202,395,000 share options were granted by the Company to certain directors, employees and consultants of the Group on 16 October 2014. Except for the 3,000,000 share options granted to certain Independent Non-executive Directors that have been vested on the date falling on the end of the sixth month from the date of grant, 40%, 30% and 30% of the remaining 199,395,000 share options granted are subject to the vesting period on the date of the first, second and third anniversary of the date of grant of such options respectively. The estimated fair value of the options granted on 16 October 2014 was HK$18,237,000. No share option was exercised during both periods.

During the year ended 31 December 2015, 22,617,000 share options were granted by the Company to certain employees of the Group on 20 April 2015. The estimated fair value of the options granted on this date was HK$3,529,000. 40%, 30% and 30% of the 22,617,000 share options granted are subjected to the vesting period on the date of the first, second and third anniversary of the date of grant of such options respectively. No share option was exercised during both periods.

During the six months ended 30 June 2017, 37,400,000 share options were granted to and accepted by a director and an employee of the Group on 15 June 2017 and 27 June 2017 respectively. The estimated fair value of the options granted 15 June 2017 was HK$2,420,000. 40%, 30% and 30% of the 37,400,000 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. No share option was exercised during both periods.

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 was 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. No share option was exercised during both periods.

20. SHARE-BASED PAYMENTS *(Continued)*

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

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

	16 October 2014	20 April 2015	15 June 2017	4 July 2017
Grant date stock price	HK$0.179	HK$0.345	HK$0.0930	HK$0.0930
Exercise price	HK$0.1840	HK$0.3510	HK$0.0932	HK$0.0932
Risk free rate	0.98% – 1.05%	0.94%	0.99%	0.99%
Contractual life	5.50 – 6.00 years	6.00 years	6.00 years	6.00 years
Expected option period	4.5 – 5.0 years	5.00 years	5.00 years	5.00 years
Expected volatility	53.33% – 60.07%	52.66%	82.35%	82.35%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%

During the six months ended 30 June 2018, the Group recognised the total expense of HK$2,048,000 (during the six months ended 30 June 2017: HK$735,000) in administrative expenses in relation to share options granted by the Company.