AUTO ITALIA

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

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

BEYOND TO THE NEW ERA

2018 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

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

PRINCIPAL OFFICE IN HONG KONG

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Siu Lek Yuen
Shatin, Hong Kong
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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

Lau, Horton & Wise LLP in association with CMS Hasche 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

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 720

WEBSITE ADDRESS

www.autoitalia.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Auto Italia Holdings Limited (the "**Company**"), I am pleased to present to our Shareholders the annual report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018.

The Group's primary business activity involves the import, marketing, distribution and provision of after-sales service to the vehicles of the legendary Italian automotive marque Maserati in Hong Kong and Macau, provision of pre-delivery inspection ("**PDI**") service in Shanghai. In addition, the Group is also engaged in property investment, as well as financial investments and services.

The year 2018 represented a challenging one for the Group, which recorded a net loss of approximately HK$7.4 million for the year ended 31 December 2018, as compared to a net profit of approximately HK$85.9 million for the previous year. The Group's consolidated revenue also dropped by 57% to HK$338 million due to the end of Ferrari business, uncertain economic environment and subdued market sentiment that adversely affected our Car Division.

Despite the results, the Group was still able to optimise its capital structure by improving the debt to equity ratio to 15.5% for the year ended 31 December 2018 from 21.6% for the previous year. The correction experienced last year followed the major re-structuring of the Group's core business the year before, and the continual investment across business divisions means that the Group can look forward to a position to enjoy consistent stream of reliable income in the foreseeable future.

The local luxury automotive market, particularly for sports car and saloon, is highly competitive in Hong Kong. Maserati vehicles compete for attention in various premium market segments, against vehicles from other well-perceived automobile manufacturers.

Recently, there are increasing views to curb the growth of private car usage in Hong Kong, as expressed by the Transport Advisory Committee in its last major report on traffic congestion; as well as by various civil think-tanks. Thus, the business of automotive trade could be more intense due to less than favourable government policies.

In the face of the seemingly challenging situations, there are definitely positive aspects that we are building on. After years of progressive efforts to enhance the unique ownership experience of Maserati cars, including the continuous progress made to the after-sales operation, the Group is delighted that both the Ghibli and the "Maserati of SUVs" Levante continued the trend of being a preferred choice of vehicle in their respective segment.

Our car operation is not the Group's only focus. In the year 2018, we allocated capital to chase the highest potential for growth and returns. For example, the revenue of Financial Investments and Services Division experienced a growth thanks to the expansion of our loan portfolio. Yet, we continue to be prudent and vigilant attitude in the business.

For our Property Investment Division, the Group continued to record a constant rental income from leasing the property of the Group, while recording a fair value gain on the investment properties. The indirect investment in an office building in Glasgow, Scotland also allowed the Group to enjoy a stable income stream from the rental revenue attributable to such office building.

Looking ahead, we will be cautiously optimistic about the prospect for 2019. While we need to be prepared for looming challenges on a global scale that may impact consumption—including the Sino-US trade dispute, interest rate hikes and the tapering quantitative easing measures across major economies—we feel well encouraged with our aim of bringing long-term value enhancement to our shareholders, thanks to a wealth of factors. These include the exciting introduction of new Maserati variants this year, the upward trend of the positive after-sales service performance, and the steady, stable income stream brought by the property and financial investments and services.

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 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

CAR DIVISION

Revenue

The Car Division's revenue in 2018 decreased by 59% to HK$325.3 million (2017: HK$787.4 million).

In mainland China, the revenue decreased to HK$42.5 million (2017: HK$99.8 million) mainly caused by the decrease of number of Maserati and Alfa Romeo cars for pre-delivery inspection service.

In Hong Kong, the overall revenue recorded a drop of 59% to HK$282.8 million (2017: HK$687.6 million) primarily due to the close down of Ferrari business in September 2017. Besides, the revenue from Maserati business recorded a slightly decrease of 0.1% to HK$264.2 million (2017: HK$264.5 million) mainly affected by the decrease of new car unit sales.

Cost of Sales and Gross Profit

Gross profit margin decreased 5.4 percentage points to 25%. Our gross profit decreased from HK$238.8 million in 2017 to HK$81.5 million owing to the decrease in car unit sales of Ferrari and Maserati in Hong Kong operation as well as the number of Maserati and Alfa Romeo cars for PDI service in Mainland China.

Other Income

For the year ended 31 December 2018, other income amounted to HK$30.4 million (2017: HK$20.1 million). The net increase of HK$10.3 million was the net impact from the increase of sales and marketing supports from suppliers and the drop of the forfeiture of customer deposit.

Other Gains and Losses and Impairment Losses, Net

Other gains and losses and Impairment losses, net, amounted to a net gain of HK$0.8 million (2017: loss of HK$0.1 million) which included gain on disposal of property, plant and equipment of HK$0.3 million, net foreign exchange gain of HK$0.1 million and net reversal of impairment losses on trade receivables of HK$0.3 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2018 aggregated to HK$128.1 million (2017: HK$178.5 million), which accounted for 39.4% (2017: 22.7%) of revenue. The net decrease of HK$50.4 million was mainly due to a decrease in rental cost and staff related cost resulting from our cost optimization, restructuring plan and termination with Ferrari.

Finance Costs

Finance costs in 2018 were reduced by 13% to HK$1.6 million (2017: HK$1.9 million).

Financial Investments and Services and Property Investment Divisions

Operating Results

For the year ended 31 December 2018, the revenue of Financial Investments and Services Division increased to HK$10.9 million (2017: HK$3.6 million), representing an increase of HK$7.3 million. The increase was mainly due to the expansion of our loan portfolio. As at 31 December 2018, the loan receivables increased to HK$89.7 million (2017: HK$35.2 million). Segment profit decreased by HK$2 million to HK$6.7 million (2017: HK$8.7 million) as there have a HK$5.6 million gain on disposal of the investment in preference shares recognised in 2017 and impairment losses on loan receivables of HK$0.8 million in 2018.

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 (2017: HK$1.8 million) and record a fair value gain of HK$3.7 million on the investment property (2017: HK$7.6 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 year ended 31 December 2018, the share of profit from such investment included the share of the fair value gain of the property was HK$6.7 million (2017: HK$4.8 million).

Loss Attributable to Shareholders

Loss attributable to shareholders of the Company for the year was HK$7.4 million (2017: profit of HK$85.9 million). Such loss is primarily attributable to the decline in revenue of the Car Division due to uncertain economic environment and subdued market sentiment.

Liquidity and Financial Resources

Cash and Cash Equivalents

As at 31 December 2018, the Group had cash and cash equivalents (including pledged bank deposits) of HK$165.2 million as compared with HK$313.2 million as at 31 December 2017, which were denominated in Hong Kong dollars (as to 92%), Renminbi (as to 4.6%), U.S. dollars (as to 3.1%) and Euro (as to 0.3%).

Bank and Other Borrowings Loans

As at 31 December 2018, the Group had bank and other borrowings totalling HK$74.2 million (2017: HK$106.2 million) of which HK$1.4 million were repayable more than one year. Net cash position as at 31 December 2018 was HK$91 million (2017: HK$207 million). The Group debt to equity ratio for the year

ended 31 December 2018 improved to 15.5% 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$74.2 million (2017: HK$106.2 million) and total equity of HK$478.0 million (2017: HK$490.7 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 2018, the Group had outstanding secured loans lent to customers totalling HK$89.7 million (31 December 2017: HK$35.2 million), which carry an interest rate range from 8% to 30% per annum and were repayable within 12 months.

Pledge of Assets

As at 31 December 2018, certain of the Group's properties, bank deposits, inventories totalling HK$104.5 million (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 31 December 2018, the Group had total capital commitments of HK$0.35 million (2017: HK$9.9 million), all capital commitments as at 31 December 2018 and 2017 are authorized but not contracted for. The capital commitment primarily related to addition tools and equipment for Maserati business. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2018, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

There are no significant events subsequent to the end of the reporting period.

HUMAN RESOURCES

The Group employed a total of 125 employees as at 31 December 2018. 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.

BUSINESS REVIEW

Maserati

In 2018, Maserati new car sales maintained a satisfactory performance with close to 300 units sold. The Trident marque achieved a stronghold respectively in the Luxury SUV segment with 42% market share thanks to the Levante S; and 35% market share in the segment where the Ghibli is in. Meanwhile, sales of Ghibli increased by 38% in 2018, supported by the introduction of the model's special versions.

The Maserati car's sales performance was supported by an array of events designed primarily for brand building, and complemented by a wealth of Customer Relationships Management programmes. Included among these activities was the prestigious equestrian event Longines Masters of Hong Kong 2018, the Maserati Performance Lab, at the Central Harbourfront Event Space, and the Maserati Golf Tournament – plus various other events organised in conjunction with luxury brand partners. All of these events and programmes were specifically created to connect with existing and future Maserati customers.

While Maserati has been steadily gaining public awareness, the Group has deployed new operational guidelines in our challenge to further improve customer satisfaction. These guidelines focus on four key elements in relation to ownership experience, namely: customer centricity, simplicity, speed and agility. The overall after-sales service quality was consistently enhanced and our Customer Satisfaction Index survey, conducted on a regular basis, showed an outstanding 96.6% satisfaction level.

The year 2018 allowed the Group to enjoy these results after placing a greater emphasis on providing customers more comprehensive service. The revenue generated from the Group's after-sales service increased by 5.8%. Doubtless, this increased revenue came about due to the introduction of more competitive service pricing, which in turn encouraged our customers to utilise our after-sales service.

In addition, the conclusion of the Audi PDI service contract in November 2018, represented an eagerly anticipated expansion to the technical capability reserved for the Maserati brand. This increased capacity is fully expected to make a positive contribution to the brand's after-sales service.

In the rapidly changing business environment, the Group continues to invest in systems and human resources to increase our efficiency levels. At the same time, the Group has implemented a cost saving programme to improve the business' overall competitiveness.

Pre-Delivery Inspection

The overall revenue derived from the PDI service in mainland China registered an expected correction. The apparent drop of 57% in revenue resulted primarily from the completion of the Alfa Romeo PDI service business in second half of 2018 and the decrease of number of Maserati car for PDI service. The Group had long prepared for the expected development, with a downsized structure and a cost-saving programme in place to lessen the effect of the scaled down business.

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. The loan portfolio of the Group continue to expand during the year, the loan receivable balance increased from HK$35.2 million as at 31 December 2017 to HK$89.7 million as at 31 December 2018 and the revenue from financial investments and services business increased to HK$10.9 million (2017: HK$3.6 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

After years of delivering Maserati products and services to its customers, the Group has many strengths to leverage as it moves forward. This year will mark a new chapter as the Group further reinforces its Maserati business in neighbouring Macau–the small yet vibrant city with the highest per capita GDP in China–with an elegant new showroom and maintenance centre, opening for business in the second quarter of 2019.

Not only will these cutting-edge facilities provide a comprehensive, customer-centric service to existing and future Maserati customers, they will also enhance brand exposure in the region. As such, the Group will be in the best possible position to make the most of all future opportunities, further contributing to the growing sales and service performance of the Group.

With an eye on the latest development of the global and local economies, the Group will continue to carefully scan future opportunities in the auto, property and financial investment, with the goal being to bring 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 46, 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 and Executive Directors' 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 and the chairman of the Financial Control Committee for the period from 13 June 2013 to 28 March 2019. He is the founder and chairman of VMS Investment Group Limited ("**VMSIG**") a substantial shareholder of the Company. Mr Chong is the son of Ms MAK Siu Hang Viola, who is the substantial shareholder of the Company. Mr Chong is currently an executive director and chairman of the board of NEWTON RESOURCES LTD. (a company listed on the Main Board of the Stock Exchange, Stock Code: 1231). 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 52, has been appointed as an Executive Director of the Company with effect from 13 June 2013. He is also a member of the Executive Directors' 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 and the member of the Financial Control Committee for the period from 13 June 2013 to 28 March 2019. He has over 27 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 62, 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 55, 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 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) and a consultant of CCT Consultants Limited. 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 27 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 57, 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 15 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 41, has been appointed as the Chief Financial Officer of the Company with effect 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 19 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.

The Directors present this Report and audited consolidated financial statements of the Group for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities and other particulars of the principal subsidiaries are set out in note 37 to the 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 2018, 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 13 of this Report respectively. These discussions form part of this Directors' Report.

Financial key performance indicators

	2018 HK$'000	2017 HK$'000	Change percentage
Total Revenue	**338,095**	792,873	-57.36%
(Loss) profit before taxation	**(5,635)**	91,514	-106.16%
Bank and other borrowing	**74,197**	106,166	-30.11%
Equity attributable to owners of the Company	**477,994**	490,685	-2.59%
(Loss) earnings per Share – Basic	**(HK0.14 cent)**	HK1.65 cent	-108.48%
(Loss) earnings per Share – Diluted	**(HK0.14 cent)**	HK1.65 cent	-108.48%
Dividend per Share	**0**	0	0%
Dividend pay-out ratio	**0%**	0%	0%
Debt-to-equity ratio	**15.5%**	21.6%	-28.24%

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 13 and "Corporate Governance Report – Risk Management and Internal Control" on pages 41 to 43, respectively.

Compliance with Laws and Regulations

As at 31 December 2018 and up to the date of this Report, the Board was unaware of any non-compliance with the applicable laws and regulations, which included the Companies Act of Bermuda, the Listing Rules, other laws and regulations, 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 2018, a couple of events were organized and they were all well received by employees.

Charitable Donations

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

Environment

The Group recognizes 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, 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.

Other information in relation to corporate social responsibilities are provided in the section headed "Environmental, Social, and Governance Report" on pages 48 to 61 of this Report.

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.

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 6 to the consolidated financial statements.

FINANCIAL STATEMENTS

The financial results of the Group for the year ended 31 December 2018 and the state of the Company and the Group's affairs as at that date are set out in the consolidated financial statements on pages 68 to 164 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 165.

DIVIDEND POLICY

The dividend policy aims to set out the policy of the Company for the monies to be paid out to the Shareholders in dividend. The Company maintains a reasonable pay-out ratio situation. In the reasonable pay-out ratio situation, the Board considers the financial situation of the Company and maintains a reasonable percentage dividend pay-out ratio with a reference of the dividend pay-out ratios in the market, the same industry and the different industries. The dividend policy of the Company dated 21 December 2018 is available on the Company's website at www.autoitalia.com.hk.

The Board considered the below factors in relation to the payment of the dividends for the year ended 31 December 2018:

(i) the financial results of the Company for the year end 31 December 2018;

(ii) the Shareholders' interests;

(iii) general business conditions and strategies;

(iv) our capital requirements;

(v) contractual restrictions on the payment of dividends by the Company to the Shareholders or by the subsidiaries of the Company to the Company;

(vi) taxation considerations;

(vii) possible effects on the Company's creditworthiness; and

(viii) statutory and regulatory restrictions.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil). No interim dividend was paid during the year ended 31 December 2018 (2017: Nil).

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Wednesday, 29 May 2019. For further details of the AGM, please refer to the notice of AGM, which will be dispatched to 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 Wednesday, 22 May 2019. The register of members of the Company will be closed from Thursday, 23 May 2019 to Wednesday, 29 May 2019 (both dates inclusive), during which period no transfer of Shares will 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 26 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 28 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 72 and page 164 of this Report respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distributions to Shareholders as at 31 December 2018 comprised the Share premium, Share option reserve plus accumulated loss with an aggregate amount of approximately HK$166,470,000 (2017: HK$170,645,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 15 to the consolidated financial statements.

DONATIONS

During the year, the Group made charitable and other donations of HK$44,495 (2017: HK$127,410).

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the Group's borrowings are set out in note 25 to the consolidated financial statements. No interest was capitalized by the Group during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for 94.7% of the Group's purchases during the year, 87.8% being attributable to the largest supplier. The percentage of turnover attributable to the Group's five largest customers is less than 16.9% 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 2018. 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 2018.

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

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

In accordance with Bye-law 99, Mr CHONG Tin Lung Benny and Mr KONG Kai Chuen Frankie 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 14 to 16 of this Report.

Changes in Information of Directors

The changes in Directors' information since the disclosure made in interim report of the Company for 2018 are set out below.

The basic salary of Mr CHONG Tin Lung Benny, an executive Director, was adjusted from HK$3,135,000 per annum to HK$3,260,400 per annum with effect from 1 January 2019.

The basic salary of Mr LAM Chi Yan, an executive Director, was adjusted from HK$2,126,052 per annum to HK$2,211,096 per annum with effect from 1 January 2019.

Pursuant to the Bye-laws of the Company, the Board revoked the authority delegated to the Financial Control Committee and the Financial Control Committee was dissolved on 28 March 2019. Mr CHONG Tin Lung Benny resigned as chairman of the Financial Control Committee and Mr LAM Chi Yan resigned as member of the Financial Control Committee with effect from 28 March 2019. The Board revoked the appointment of Mr CHONG Tin Lung Benny as chairman of the Financial Control Committee and Mr LAM Chi Yan as members of the Financial Control Committee with effect from 28 March 2019.

The Director's fee of Dr SANTOS Antonio Maria, an Independent Non-executive Director, was adjusted from HK$180,000 per annum to HK$210,000 per annum with effect from 1 January 2019.

The Director's fee of Mr KONG Kai Chuen Frankie, an Independent Non-executive Director, was adjusted from HK$180,000 per annum to HK$210,000 per annum with effect from 1 January 2019.

The Director's fee of Mr LEE Ben Tiong Leong, an Independent Non-executive Director, was adjusted from HK$180,000 per annum to HK$210,000 per annum with effect from 1 January 2019.

Besides, Mr LEE Ben Tiong Leong entered into an old letter of appointment with the Company for two years commencing from 27 February 2017 to 26 February 2019. On 26 February 2019, the Company entered into a new letter of appointment with Mr Lee for a term of two years commencing from 27 February 2019, 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. Mr Lee is entitled to an annual Director's fee of HK$210,000, which was determined by the Board with reference to the recommendation from the Remuneration Committee and his duties, responsibilities and the prevailing market situation.

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

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 of 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 of the Company, 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 2018, 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 2018 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 2018, 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 SFO) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

(a) (i) None of the Directors held any beneficial interests and long positions in the Shares.

(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 2018 are disclosed in the section headed "Share Option Scheme" of this Report.

DIRECTORS' INTERESTS IN ASSETS TRANSACTION AND/OR ARRANGEMENT

At 31 December 2018, 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 2018, there was no other transaction or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group as a whole.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Group business, to which the Company or any of its subsidiaries was a party and in which a Director had, whether directly or indirectly, a material interest subsisting at the end of the year or at any time during the year ended 31 December 2018.

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 2018 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 2018, so far as is known to the Directors, no other person 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 (Note)	5.84%
Maini Investments Limited	304,725,000 (Note)	5.84%
VMSIG	1,498,016,472 (Note)	28.70%
Ms MAK Siu Hang Viola	1,498,016,472 (Note)	28.70%

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

All interests in Shares and underlying shares of equity derivatives of the Company are long positions. None of the substantial shareholders of the Company 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 2018, 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, 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 Share 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 Share 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 Share 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 Share 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 Share Option Scheme without prior approval by the Shareholders.

Since the Shareholders approved to refresh the 10% limit on grant of Share options under the Share Option Scheme at the 2015 AGM on 20 May 2015, as at 31 December 2018 the total number of Shares available for issue under the Share 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 of the Company or an independent non-executive Director, or any of their respective associates, under the Share 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 Share 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 Share 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 Share Option Scheme, during the year ended 31 December 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 year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 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	–	–	(1,703,200)	5,513,000
	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
(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**	**–**	**–**	**(1,703,200)**	**216,764,000**

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 Share 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 Share 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 2018.

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 2018, 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 2019

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 CG Code Provisions throughout the year ended 31 December 2018, except for the deviation of CG Code Provision A.2.1 of the CG Code which is 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 2018, 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

Independent Non-executive Directors
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.

During the year, the Board had conducted four formal meetings. During the year 2018, the Board had considered and approved the annual results of the Company for the year ended 31 December 2017; the re-election of retiring Directors and the matters to be considered at the annual general meeting of the Company held on 25 May 2018; the re-appointment of auditor of the Company; the change of Company Secretary and authorized representative of the Company; the interim results of the Company for the period ended 30 June 2018; the renewal of letter of appointment of an INED; the adjustment of the remuneration package of the Directors of the Company; the Board diversity policy; the nomination policy; the dividend policy; the terms of reference of Audit Committee; the terms of reference of Nomination Committee; the terms of reference of Remuneration Committee; and the terms of reference of Executive Directors' Committee.

Chairman and Chief Executive Officer

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.

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 CG 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 CG 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.

During the year ended 31 December 2018 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 the director training webcast series organized by the Stock Exchange and/or 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.

BOARD COMMITTEES *(Continued)*

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 Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 including the accounting principles and practices adopted by the Group, and discussed the risk management, internal control and financial reporting matters during the review. The terms of reference of the Audit Committee are reviewed annually. The terms of reference of the Audit Committee was revised and updated on 21 December 2018. It is available on the website of the Stock Exchange 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 CG Code Provision C.3.3 (a) to (n) of the CG Code.

The principal duties of the Audit Committee should be to make recommendations to the Board on the appointment of the external auditors and their remuneration for audit and non-audit services; to review the effectiveness of the audit process in accordance with applicable standards; to review changes in accounting policies and practices; to review the fairness and reasonableness of any connected transaction; to review the cash flow position of the Group; and to review the dividend policy; internal control and risk management systems of the Group and to provide advices and comments to the Board.

During the year, the Audit Committee conducted two formal meetings. During the year of 2018, 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 2018; considered the re-appointment of auditor of the Company; reviewed the audited accounts and final results announcement for the year ended 31 December 2017; reviewed the interim report and the interim results announcement for the six months ended 30 June 2018; 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; and reviewed the related party transactions and compliance of the relevant Listing Rules and accounting policies in relation thereto.

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 was revised and updated on 21 December 2018. It is available on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.autoitalia.com.hk. The terms of reference of the Remuneration Committee were adopted with reference to the CG Code, including the specific duties set out in CG Code Provision B.1.2 (a) to (h).

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The principal duties of the Remuneration Committee should be to make recommendations to the Board on the Group's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to have the delegated responsibility to determine the remuneration packages of individual Executive Directors, the senior management and non-executive Directors; and to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment.

During the year, the Remuneration Committee had conducted two formal meetings. During the year 2018, the Remuneration Committee had considered and made recommendations to the Board in relation to review the remuneration policy and structure for the Directors and the senior management of the Company, the remuneration of an INED upon renewal of his letter of appointment and the adjustment of the Director's remuneration package.

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 was revised and updated on 21 December 2018. It is available on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.autoitalia.com.hk. The terms of reference of the Nomination Committee have included the duties set out in CG CG Code Provision A.5.2 (a) to (d) of the CG Code.

The principal duties of the Nomination Committee should be to review the structure, size, composition and diversity (including the skills, knowledge, ethnicity, gender, cultural and educational background, professional experience and length of service) of the Board annually; to identify individuals suitably qualified to become members of the Board and make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of Independent Non-executive Directors under the Listing Rules; to make nominations to the Board for its consideration and recommendation to the Shareholders for proposing candidates to stand for election at a general meeting; to formulate and review the nomination policy for the Board's consideration and approval and to implement accordingly; and to formulate and review the Board diversity policy, as appropriate and make recommendations on any required changes for the Board's consideration and approval.

During the year, the Nomination Committee had conducted one formal meeting. During the year 2018, 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 last annual general meeting of the Company in 2018, the review of the structure, size and composition of the Board.

BOARD COMMITTEES *(Continued)*

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 overall management of the business of the Company, including day-to-day operations and administration of the Company. The terms of reference of the Executive Directors' Committee was revised and updated on 21 December 2018. It is available on the website of the Company at www.autoitalia.com.hk.

The principal duties of the Executive Committee should be to approve and oversee the execution of the normal and current business and investment activities of the Group in accordance with the needs of the Company for business development; to act on behalf of the Board in the day-to-day management of the Group, including but not limited to its purchasing, marketing, financing, personal and other operating activities; 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; to lend money to such persons upon such terms and conditions in all respects as they may think fit; to commence, defend or settle any litigation, arbitration, legal proceedings or other claims and to do all such acts including seeking legal advice, making investigation as they may consider necessary in relation to the litigation, arbitration, legal proceedings or other claims; and to authorise the issue and allotment of Shares pursuant to the exercise of options granted under the share option scheme adopted by the Company from time to time and to give instructions to the Share registers of the Company in relation to such issue and allotment of Shares.

During the year, the Executive Directors' Committee had conducted seventeen meetings. During the year 2018, the Executive Directors' Committee had considered and approved the change of the primary authorised person for e-Submission; the grant of banking facilities; the loans granted by the Group to the independent third parties; the lapse of share options; the closure of bank account; the inter Group funds transaction.

Nomination Policy

This nomination policy of the Company aims to set out the approach to select the suitable candidates to become the members of the Board. The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to Board and the Shareholders for election as the Directors at general meetings or appoint as Directors to fill casual vacancies.

The selection criteria factors and the nomination procedures are set out in the nomination policy of the Company to be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate to become the member of the Board.

The nomination policy of the Company was adopted and updated on 21 December 2018. It is available on the website of the Company at www.autoitalia.com.hk.

BOARD COMMITTEES *(Continued)*

Board Diversity Policy

This Board diversity policy aims to set out the approach to achieve diversity on the Board with the aim of enhancing Board effectiveness and corporate governance as well as achieving the Company's business objectives and sustainable development.

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, ethnicity, professional experience, required expertise, skills, knowledge and length of service of each Board member.

The Board diversity policy of the Company was revised and updated on 21 December 2018. It is available on the website of the Company at www.autoitalia.com.hk.

BOARD AND COMMITTEES MEETINGS

The Board met four times in 2018. The attendances of individual Director at these Board meetings and Board Committees' meetings held in 2018 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	2/2	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	2/2	1/1	N/A
Mr KONG Kai Chuen Frankie	4/4	2/2	2/2	1/1	N/A
Mr LEE Ben Tiong Leong	4/4	2/2	2/2	1/1	N/A

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under CG 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 2018, 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 62 to 67 of this Report.

During the year of 2018, the auditor had performed audit and non-audit services and their remuneration in respect of audit and non-audit services is HK$1.2 million and HK$0.535 million 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, the Audit Committee and the RMTF. The Board 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.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

- To assist the Board 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 annually.

  – To maintain an oversight of the Group's risk management system, framework and program and propose enhancement(s) needed, including those to fulfill the regulators or governance bodies' statutory requirements, to the Board for approval at least annually.

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

In addition, the Group has engaged an independent professional advisor to assist the Board 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 on a timely basis to ensure prompt remediation actions are taken.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Risk management report and internal control report are submitted to the Audit Committee and the Board once a year. The Board 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 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. 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 chairman 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 2018. The attendance of individual Director at the general meeting held in 2018 is set out in the table below:

Name of Directors	Number of general meeting 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 CG Code Provision E.1.2 of the CG Code, the Company invited representatives of the auditor of the Company to attend the annual general meeting of the Company convened on 25 May 2018 to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

All the proposed ordinary resolutions in relation to the proposals for re-election of retiring directors, general mandate to issue new shares and general mandate to buy back securities of the Company were duly passed by the Shareholders by way of poll at the annual general meeting of the Company held on 25 May 2018.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

Shareholders' Right

Shareholders may make a requisition to the Board to convene a SGM in accordance with the provisions as set out in the Bye-laws and section 74 of the 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 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 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.

Under section 79 of the 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.

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

Shareholders' Right *(Continued)*

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 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 2018. 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 was the Company Secretary from 1 April 2017 to 30 May 2018. Mr Wong resigned as Company Secretary with effect from 30 May 2018. He was a manager of SWCS and had 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.

Ms KWONG Yin Ping Yvonne has been appointed as the Company Secretary with effect from 30 May 2018. She is a vice president of SWCS. Ms Kwong obtained a Bachelor Degree in Accounting from the Hong Kong Polytechnic University. She is a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms Kwong currently also serves as the company secretary or joint company secretary of several companies listed on the Stock Exchange. She had undertaken no less than 15 hours of relevant profession training during the year ended 31 December 2018.

The contact person of Mr WONG Yat Tung and Ms KWONG Yin Ping Yvonne at the Company is Mr CHONG Ting Lung Benny, Executive Director, Executive Chairman and Chief Executive Officer.

In accordance with Appendix 27 – Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") of the Main Board Listing Rules (the "**Listing Rules**") issued by The Stock Exchange of Hong Kong Limited (the "**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 2018 (the "**Reporting Period**").

SCOPE OF THE REPORT

With regard to the revenue portion, stakeholders' interests, operation locations and the ESG-related risks, this report serves to provide details of the Group's ESG policies of its cars and accessories trading, and car repairing service businesses in Hong Kong, which represent the key geographical segment of the Group, in the Reporting Period.

ESG GOVERNANCE

We believe a well-developed corporate governance structure is the key to the success of our ESG strategy therefore we have established the ESG reporting taskforce, which includes senior management as well as department heads of different functions while the Board of Directors has the overall responsibility for the Group's ESG reporting and strategy in achieving green operations for sustainable development. The responsibility of the ESG reporting taskforce includes but is not limited to the followings:

- Establishing long-terms ESG goals and missions of the Group;
- Monitoring and managing ESG-related risks;
- Evaluating the effectiveness of the Group's ESG management systems; and
- Reporting the ESG objectives achieved to the Board on a regular basis.

The ESG taskforce is authorized and provided with sufficient resources by the Board of Directors to carry out its ESG-related duties such as stakeholder engagement and materiality assessment. For example, the ESG taskforce could, if necessary, inquire the internal and external stakeholders of the Group, and have professional advice at the expense of the Group.

In addition, we monitor closely the latest update of laws and regulation applicable to the Group with an aim to assess and modify our internal ESG initiatives regularly to ensure the compliance of the ESG-related rules, guidelines and regulations.

We have also incorporated our ESG visions into our operation activities. For example, we have implemented a series of environmentally-friendly measures in order to reduce the emissions and harm to the environment. We have also evaluated our investment decision with regard to the sustainability to the environment and our society.

STAKEHOLDER ENGAGEMENT

Stakeholder engagement is the process involving internal and external parties that can influence or get influenced by the Group's decision. The Group takes proactive role in the interaction with stakeholders from various sectors. In order to achieve effective communication among the stakeholders, the Group has adopted the following engagement methods:

#	Relevant Stakeholders	Engagement Methods
1	Customers	• Corporate website • Client service hotline • Client experience survey • Client meetings
2	Employees	• Internal emails and publications • Meetings and briefings • Training • Employee activities • Performance appraisal
3	Suppliers and Business Partners	• Business meeting • Performance evaluation • Regular audit • Trainings
4	Investors and Stockholders	• Annual General Meeting • Annual and Interim Reports • Press release and announcements
5	Government and Supervising Authorities	• Public consultation
6	Social Groups and Public	• Charitable activities
7	Media	• Press release

MATERIALITY ASSESSMENT

We have identified our material ESG issues to be reported by the means of materiality assessment which was conducted with reference to the recommendations of the ESG Guide. The materiality assessment included the consideration of our business location and industry, and included the following steps:

Stakeholder engagement	We engaged internal stakeholders including department heads and operational staff members through daily communication, interviews and questionnaires to prioritize the major issues, as well as undiscussed issues that are of importance to the Group.
Assessment of the issues	Regarding opinions of the stakeholders, the management of the Group (the "**Management**") discussed the relevance of the issues, including the impact and risks related to the Group.
Determination of the material issues	After the discussion by the Management, the ESG issues were ranked in the context of importance and relevance to the Group, and the most material issues would be summarized in this ESG Report.

As a result of the materiality assessment, the summary of material ESG issues of the Group is listed below:

	Material ESG issues	**ESG Guide Reference:**
Social	Customer Services	Aspect B6: Product Responsibility
	Data Privacy	Aspect B6: Product Responsibility
	Products and Services Responsibility	Aspect B6: Product Responsibility
	Employment Practices	Aspect B1: Employment
	Supplier Practices	Aspect B5: Supply Chain Management
	Anti-Corruption and Money Laundering	Aspect B7: Anti-corruption
	Staff Training	Aspect B3: Development and Training
	Workplace Health and Safety	Aspect B2: Health and Safety
	Anti-Child and Forced Labour	Aspect B4: Labour Standards
	Community Engagement	Aspect B8: Community Investment
Environment	Air Emissions	Aspect A1: Emissions
	Waste Management	Aspect A1: Emissions
	Carbon Footprints	Aspect A1: Emissions
	Resources Conservation	Aspect A2: Use of Resources
	Other Significant Environmental Impacts	Aspect A3: The Environment and Natural Resources

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

SOCIAL

Customer Services

The Group is committed to providing best quality of service for our customers. We strictly adhere to the service guidelines as set out by the auto makers which conduct stringent and routine audits to the Group to ensure services quality is up to standard.

We have established the "Customer Satisfaction Survey" to understand customer experience in our operation locations. Customers are welcome to score and comment on our services in the survey. The results are reported to the Management for performance evaluation of staff members. Customers' complaints are followed up by the Management to enhance the service quality. We continue to review and improve our sales processes in order to prevent occurrence of undesirable service delivery in the future.

Our product managers provide regular product training to our sales and marketing team in order to keep them updated with the latest product information as well as the service standards.

Data Privacy

The Group respects data privacy of stakeholders including staff, customers and suppliers. In order to implement appropriate measures in data protection and protect the privacy right of our stakeholders. The Information Security Policy and Guideline has been established to set out the principles of data privacy management. Data Protection Principles from the Personal Data (Privacy) Ordinance are applied to our business operations. The general principles adopted by the Group are:

- Personal data is 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; and
- Only designated personnel will be granted the access rights to personal data.

SOCIAL *(Continued)*

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 is clear and open. Fraud, misleading information, or any acts that destroy customer confidence or infringe customer rights are strictly prohibited.

We adhere to product and service, and data privacy-related law and regulations, such as the Trade Description Ordinance, Sale of Goods Ordinance, Supply of Services (Implied Terms) Ordinance and Personal Data (Privacy) Ordinance of Hong Kong by timely update to staff members and random checking on potential violation. During the Reporting Period, no cases of non-compliance with product and services, or data privacy-related laws and regulations were noted.

Employment Practices

We believe that people are the most valuable asset for supporting its success. To this end, competitive remuneration packages, benefits programs as well as learning and development opportunities are provided to attract, motivate and retain talents. In addition, we have developed the Human Resources Policy to govern the recruitment, dismissal, promotion, discipline, working hours, leaves and other benefits of our employees.

The level of compensation of our 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 provided for employees. We also place heavy emphasis on training and development opportunities as well as social activities for all of our employees. In addition, we have implemented the "Family-friendly Employment Practices" to help our employees balance the responsibilities of their work and families. Our Family-friendly Employment Practices include flexible work arrangements, family recreational activities, special leave such as compassionate leave, living support and "Breastfeeding Friendly Workplace".

Meanwhile, the Group respects cultural and individual diversity. We believe that no one should be treated less favourably because of 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.

SOCIAL *(Continued)*

Employment Practices *(Continued)*

As a responsible employer, we are committed to complying with all local labour laws such as the Employment Ordinance and Minimum Wage Ordinance. Our internal department monitors closely the latest update and announcement of the local authority in order to prevent the Group from violating the laws and regulations. During the Reporting Period, no cases of non-compliance with the abovementioned labour laws and regulations were noted.

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 selected 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.

Anti-Corruption and Money Laundering

We do not tolerate corruption, money-laundering and other fraudulent activities. We have established the Staff Code of Conduct which stipulates proper work ethics and practices and we require our staff to strictly follow the Staff Code of Conduct during the course of business. Misconduct, unethical behaviours and bribery are prohibited in our business dealings and relationships. Staff are subject to disciplinary actions in case of breach of the Staff Code of Conduct.

Effectiveness of our internal controls has been reviewed at least annually to ensure sound internal control system is in place in preventing malpractices.

We have established whistle-blowing channel which provides a communication channel to all staff to report suspicious fraudulent actions to the Management directly.

We adhere to corruption and money laundering-related laws and regulations such as the Prevention of Bribery Ordinance, and Anti-Money Laundering and Counter-Terrorist Financing Ordinance of Hong Kong. During the Reporting Period, no cases of non-compliance with corruption and money laundering-related laws and regulations were noted.

SOCIAL *(Continued)*

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 is 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 have been established and implemented to support our staff's pursuit of professional training.

In addition to training support offered by the Group, our principal's headquarter has a dedicated training centre for dealer staff which includes not only product training, but also client management training such as customer relationship management and mystery shopper.

Workplace Health and Safety

Health and safety standards are our 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 latest safety standards and practices.

During the Reporting Period, neither workplace accidents, injury, work-related fatalities nor non-compliances against the Employees' Compensation Ordinance, Occupational Safety and Health Ordinance or other related laws and regulations were noted.

SOCIAL *(Continued)*

Anti-Child and Forced Labour

The Group prohibits child and forced labour of any kind in our operations and services. Internal control procedures such as background check and job interviews are performed on every candidate by us during the recruitment process to ensure no child and forced labour are hired.

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

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.

We participate in various events to demonstrate our care for all walks of life, and promote our advocates of social responsibility to raise staff's awareness, thereby magnifying the effect of community participation. During the Reporting Period, the Group joined the following charity events:

- Earth Hour 2018 (in March 2018) organized by World Wildlife Fund;
- 2018 Charity Walk (in March 2018) organized by the Suicide Prevention Services;
- Don't Qua Charity Action 2018 (in July 2018) organized by the Suicide Prevention Services;
- The Community Chest Green Day 2018 (in August 2018) organized by The Community Chest; and
- 2018 Annual Charity Event (in August 2018) organized by The Ten Percent Donation Scheme Foundation.

ENVIRONMENT

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 environmental laws and regulations such as the Air Pollution Control Ordinance, Waste Disposal Ordinance, Water Pollution Control Ordinance and Noise Control Ordinance in Hong Kong. During the Reporting Period, no cases of non-compliance against abovementioned environmental laws and regulations were noted.

Air Emissions

The major source of air emissions is the vehicles used for customer test drive, parts delivering and towing of cars. During the Reporting Period, the emissions of the Group were as follows:

Types of emission[1]	**Unit**	**2018**	2017
Nitrogen oxides ("**NOx**")	kilogram	**34.50**	121.68
Sulphur oxides ("**SOx**")	kilogram	**0.69**	0.95
Particular matter ("**PM**")	kilogram	**2.66**	11.06

Compared to 2017, the decrease of emissions of NOx, SOx and PM of the Group was mainly due to the reduction in fuel consumed by vehicles.

To control the vehicle emissions, we centralized the vehicle management and route planning functions to reduce the travelling distance. Moreover, we prefer using vehicles of higher fuel efficiency to cut down the fuel consumption and hence the vehicle emissions. We have also monitored closely the conditions of our working vehicles which have passed the annual tests held by the local authority. We have not been prosecuted for excessive emission of our vehicles and we do not note any violation of Air Pollution Control Ordinance.

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

ENVIRONMENT *(Continued)*

Waste Management

The Group is committed to minimizing the negative environmental impact arising in handling and disposal processes of wastes. We incorporate the waste management principles of "Reduce", "Reuse", "Recycle" and "Replace" into our waste management policy with an aim to reduce the generation of wastes from our operations, and ensure the waste materials are handled in an environmentally-friendly manner. To achieve the 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. In addition, we understand that some of our waste should be treated with care before disposal therefore we have established guidelines for staff to handle such waste. For example, we enclose debris chute and collection chamber by impervious sheeting, and spray water on debris before it is dumped into a debris chute.

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.

The major hazardous wastes in our operations are motor oil, antifreeze for engines and old batteries of vehicles. During the Reporting Period, the usage of motor oil, antifreeze and batteries was as follows:

		2018		2017	
Type	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Motor oil	Tonnes	**7.2**	**0.024**	8.4	0.012
Antifreeze	Tonnes	**0.4**	**0.001**	0.5	0.001
Batteries	Tonnes	**0.5**	**0.002**	0.8	0.001

Compared to 2017, the hazardous waste produced by the Group slightly decreases and it was due to smaller scale of operating activities.

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 order to further reduce the quantity of waste, energy-saving materials are used in our operations.

ENVIRONMENT *(Continued)*

Waste Management *(Continued)*

The major non-hazardous waste in our operations is paper used in office. During the Reporting Period, the amount of paper used was as follows:

		2018		2017	
Type	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Paper	Tonnes	**1.27**	**0.004**	1.30	0.002

Compared to 2017, the usage of paper in the Reporting Period slightly decreases because of the enhanced adoption of environmental-friendly measures.

We have monitored the paper usage on a monthly basis, designed and implemented action plans such as using recycled paper and duplex printing for internal documents and replacing paper communication among offices with electronic communication measures.

ENVIRONMENT *(Continued)*

Carbon Footprints

During the Reporting Period, the major sources of our carbon emission are the consumption of three types of energy, which are electricity, petrol and diesel, and the total amount of carbon dioxide equivalent ("**CO_2e**") emission is as follows:

		2018		2017	
Source of emission[2]	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Business activities	Tonnes	**685**	**2.32**	893	1.29

The lower total CO_2e emission in the Reporting Period than that in 2017 is attributed to reduced consumption of energy such as fuel and electricity resulting from smaller operating scale.

We continue our efforts on lowering the carbon footprints, we have adopted various initiatives to control the resource usage and please refer to "Resources Conservation" for details.

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 the 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, "2017 Sustainability Report" issued by China Light and Power Company Limited, and "Sustainability Report 2017" issued by the Hongkong Electric Company Limited.

ENVIRONMENT *(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. Furthermore, 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, fuels 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:

		2018		2017	
Type of resource	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Electricity	kWh	**958,509**	**3,242.955**	1,225,257	1,767.609
Petrol	Litre	**45,747**	**154.777**	44,890	64.760
Diesel	Litre	**844**	**2.857**	17,767	25.631
Water	m^3	**1,189**	**4.023**	2,843	4.101

Following the reduction in the operating scale, the total consumption of electricity, diesel and water decreases in the Reporting Period, when compared to 2017. The increase in consumption of petrol is due to more frequent customer test drive and use of vehicles by our executives in the Reporting Period.

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.

ENVIRONMENT *(Continued)*

Other Significant Environmental Impacts

In addition to the abovementioned environmental impacts, other negative impacts to the environment and natural resources have been taken into account while 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. We perform regular maintenance on our vehicles and machinery in order to minimize the negative impact caused by undesired noise. We also adhere to the requirements under the Construction Noise Permit for use of Powered Mechanical Equipment (PME) therefore we carry out prescribed construction work in restricted hours

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.

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 68 to 164, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 judgement, 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 management's estimation. In case of adverse changes in market condition, 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 2018, the carrying amount of inventories was HK$184,808,000 and impairment loss of HK$218,000 was 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.

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 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 2018, the carrying amount of goodwill and property, plant and equipment were HK$2,480,000 and HK$20,876,000 respectively. No impairment loss was recognised in profit or loss during the year.	Our procedures in relation to the impairment of goodwill and property, plant and equipment included: • Obtaining 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 and growth 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 issued by the HKICPA 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 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue from goods and services	5	**325,333**	787,418
Rental income		**1,816**	1,816
Interest income from loan receivables		**10,946**	3,639
Total revenue		**338,095**	792,873
Cost of sales and services		**(243,857)**	(548,588)
Gross profit		**94,238**	244,285
Other income	7	**30,434**	20,501
Other gains and losses	8	**2,897**	13,444
Impairment losses, net		**(491)**	(355)
Selling and distribution costs		**(81,859)**	(108,587)
Administrative expenses		**(55,777)**	(80,592)
Finance costs	9	**(1,751)**	(2,004)
Share of result of an associate		**6,674**	4,822
(Loss) profit before taxation		**(5,635)**	91,514
Taxation	10	**(1,768)**	(5,642)
(Loss) profit for the year	11	**(7,403)**	85,872
(Loss) earnings per share	13		
– Basic		**(HK0.14 cent)**	HK1.65 cent
– Diluted		**(HK0.14 cent)**	HK1.65 cent

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
(Loss) profit for the year	**(7,403)**	85,872
Other comprehensive (expense) income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations and the associate	**(5,661)**	2,995
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	**(2,061)**	–
Other comprehensive (expense) income for the year	**(7,722)**	2,995
Total comprehensive (expense) income for the year	**(15,125)**	88,867

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment properties	14	**59,000**	55,300
Property, plant and equipment	15	**20,876**	25,040
Goodwill	16	**2,480**	2,480
Interest in an associate	17	**65,082**	62,089
Rental deposits		**10,273**	9,450
		157,711	154,359
Current assets			
Inventories	19	**184,808**	151,962
Trade and other receivables	20	**36,675**	70,997
Loan receivables	21	**89,666**	35,220
Pledged bank deposits	22	**44,014**	47,024
Bank balances and cash	22	**121,212**	266,181
		476,375	571,384
Current liabilities			
Trade and other payables	23	**59,672**	121,094
Contract liabilities	24	**17,729**	–
Tax payable		**2,901**	6,205
Bank and other borrowings	25	**72,815**	103,005
		153,117	230,304
Net current assets		**323,258**	341,080
Total assets less current liabilities		**480,969**	495,439

	NOTES	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	26	**104,391**	104,391
Reserves		**373,603**	386,294
Total equity		**477,994**	490,685
Non-current liabilities			
Bank and other borrowings	25	**1,382**	3,161
Deferred taxation	27	**1,593**	1,593
		2,975	4,754
		480,969	495,439

The consolidated financial statements on pages 68 to 164 were approved and authorised for issue by the board of directors on 28 March 2019 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 2018

	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 2017	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**
Adjustment (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**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,403)**	**(7,403)**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(7,722)**	**–**	**–**	**(7,722)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(7,722)**	**–**	**(7,403)**	**(15,125)**
Recognition of equity settled share-based payments	**–**	**–**	**–**	**2,836**	**–**	**–**	**–**	**–**	**2,836**
Transfer upon lapse of share options	**–**	**–**	**–**	**(154)**	**–**	**–**	**–**	**154**	**–**
At 31 December 2018	**104,391**	**249,345**	**2,151**	**16,173**	**19,246**	**(3,588)**	**166,431**	**(76,155)**	**477,994**

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(5,635)**	91,514
Adjustments for:		
Impairment losses on trade and other receivables and loan receivables, net	**491**	355
Allowance for inventories	**218**	1,134
Depreciation of property, plant and equipment	**11,511**	16,623
Interest income	**(411)**	(294)
Interest expenses	**1,751**	2,004
Gain on fair value change of investment properties	**(3,700)**	(7,600)
(Gain) loss on disposal/written-off of property, plant and equipment	**(328)**	5,166
Gain on disposal of investment in preference shares	**–**	(5,592)
Share-based payments	**2,836**	3,062
Share of result of an associate	**(6,674)**	(4,822)
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	**(2,061)**	–
Operating cash flows before movements in working capital	**(2,002)**	101,550
(Increase) decrease in inventories	**(33,064)**	72,461
Decrease in trade and other receivables	**33,430**	28,913
(Increase) decrease in loan receivables	**(55,270)**	21,780
Decrease in trade and other payables	**(17,732)**	(210,170)
Decrease in contract liabilities	**(25,961)**	–
Net cash (used in) from operations	**(100,599)**	14,534
Income tax paid	**(5,072)**	(6,492)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(105,671)**	8,042
INVESTING ACTIVITIES		
Interest received	**411**	294
Purchase of property, plant and equipment	**(11,868)**	(16,906)
Proceeds from disposal of property, plant and equipment	**4,538**	23,893
Placement of pledged bank deposits	**(21,000)**	(47,024)
Withdrawal of pledged bank deposits	**22,963**	46,828
Proceeds from disposal of investment in preference shares	**–**	42,871
Investment in an associate	**–**	(55,053)
NET CASH USED IN INVESTING ACTIVITIES	**(4,956)**	(5,097)

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES		
Interest paid	(1,751)	(2,004)
Bank and other borrowings raised	121,558	299,683
Repayment of bank and other borrowings	(153,527)	(284,097)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(33,720)	13,582
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(144,347)	16,527
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	266,181	248,839
Effect of exchange rate changes	(622)	815
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	121,212	266,181

Note:

Interest received included in operating activities	10,946	3,639

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

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

Except as described below, the application of the new and 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 consolidated financial statements.

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

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

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. 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.

The Group recognises revenue from the following major sources which arise from contracts with customers:

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

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 3 and 5 respectively.

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

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

2.1 *HKFRS 15 Revenue from Contracts with Customers* *(Continued)*

Summary of effects arising from initial application of HKFRS 15

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

	Note	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	(a)	121,094	(43,690)	77,404
Contract liabilities	(a)	–	43,690	43,690

Note:

(a) 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.

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

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

2.1 *HKFRS 15 Revenue from Contracts with Customers (Continued)*

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and the consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Current liabilities			
Trade and other payables	59,672	17,729	77,401
Contract liabilities	17,729	(17,729)	–

Impact on the consolidated statement of cash flows

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Operating activities			
Decrease in trade and other payables	(17,732)	(25,961)	(43,693)
Decrease in contract liabilities	(25,961)	25,961	–

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

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

2.2 HKFRS 9 Financial Instruments

In the current year, 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 under ECL model) 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.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Impairment under ECL model

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 and loan receivables have been assessed individually based on its own credit risk characteristics.

ECL for other financial assets at amortised cost, including pledged bank deposits and bank balances, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, 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. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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

2.2 *HKFRS 9 Financial Instruments (Continued)*

Impairment under ECL model (Continued)

All loss allowances, including trade receivables and loan receivables at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are 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)

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustment recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	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)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

New and Amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

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

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

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

HKFRS 16 Leases *(Continued)*

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$72,850,000 as disclosed in note 30. 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$11,494,000 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK (IFRIC)-Int 4. Therefore, the Group would not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group would elect the modified retrospective approach for the application of HKFRS 16 as lessee and would recognise the cumulative effect of initial application to opening accumulated losses, if any, without restating comparative information.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the 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 interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exits, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

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 or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Subsidies income from suppliers are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that subsidies income will be received.

The Group's policy for recognition of revenue from operating leases is described in the accounting policy below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including leasehold land and building held for administrative purposes are stated in the consolidated statement of 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 ("**CGUs**") (or groups of CGUs), that is expected to benefit from the synergies of the acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

A CGU (or group of CGUs) 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 CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU 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 (or group of CGUs). 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 CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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 28 to the consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions 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 vest based on assessment of all relevant non-market vesting conditions. 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 options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of tangible and intangible assets are estimated individually when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) 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 CGU) 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 CGU) 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 except from trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability 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 financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

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 deposits and bank balances). 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) 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;

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

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 aforegoing, 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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

The grouping is regularly reviewed by the management to ensure the constituents of each group continue to share similar credit risk characteristics.

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.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into 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.

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.

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 (before application of HKFRS 9 on 1 January 2018)

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 when 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 a 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.

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 receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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 the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and bank and other borrowings, are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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. CRITICAL ACCOUNTING JUDGEMENT AND 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.

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. As at 31 December 2018, the carrying amount of inventories is HK$184,808,000 (2017: HK$151,962,000), whereas the allowance for inventories recognised during the year ended 31 December 2018 is HK$218,000 (2017: HK$1,134,000).

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of goodwill and property, plant and equipment

The recoverable amount of the Group's CGU 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 CGU 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 2018, the carrying amounts of goodwill and property, plant and equipment are HK$2,480,000 (2017: HK$2,480,000) and HK$20,876,000 (2017: HK$25,040,000) respectively.

Provision of ECL for trade receivables and loan receivables

Trade receivables and loan receivables are assessed for ECL individually which is based on credit risk characteristics and the historical observed default rates adjusted for forward-looking estimates that is available without undue costs or effort. The Group applies internal credit rating for its customers. The debtors are assessed individually by reference to pass default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and loan receivables are disclosed in notes 35, 20 and 21 respectively.

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 judgement 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 2018, the carrying amount of investment properties is HK$59,000,000 (2017: HK$55,300,000).

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	HK$'000
Types of goods and services	
Trading of cars and related accessories	212,482
Provision of after sales and pre-delivery inspection services	112,851
Total	325,333
Geographical markets	
Hong Kong	282,804
Mainland China (excluding Hong Kong and Macau)	42,529
Total	325,333
Timing of revenue recognition	
A point in time	212,482
Overtime	112,851
Total	325,333

(ii) Performance obligations for contracts with customers

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. Each unit of car is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligation are satisfied at a point in time once control of the goods has been transferred to the customers. The customers have obtained control on the goods through their ability to direct other use of and obtain substantially all the benefits from the goods. Payment of transaction price is due immediately at the point the cars are delivered to the customers.

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. The average credit period is 90 days.

5. REVENUE *(Continued)*

A. For the year ended 31 December 2018 *(Continued)*

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The performance obligation of provision of after sales and pre-delivery inspection services forms part of a contract that has an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

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

	HK$'000
Sales of goods to customers, less returns and discounts	525,171
Maintenance service income	262,247
Interest income from loan receivables	3,639
Rental income	1,816
	792,873

6. SEGMENT INFORMATION

Information reported to the chief operating decision maker ("**CODM**"), being the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance, focuses on the types of goods or services provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

The Group has three operating segments under HKFRS 8 which are as follows:

(i) Cars – Trading of cars and related accessories and provision of car repairing services;

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

(iii) Property investment.

6. 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 segments.

For the year ended 31 December 2018

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE				
Group's revenue	325,333	10,946	1,816	338,095
SEGMENT RESULTS				
Segment (loss) profit	(16,115)	6,745	5,370	(4,000)
Share of result of an associate				6,674
Interest income				411
Unallocated corporate expenses				(6,969)
Finance costs				(1,751)
Loss before taxation				(5,635)

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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
Interest income				294
Unallocated corporate expenses				(7,665)
Finance costs				(2,004)
Profit before taxation				91,514

6. 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 2018

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets				
Segment assets	253,368	90,809	59,199	403,376
Bank balances and cash				121,212
Interest in an associate				65,082
Pledged bank deposits				44,014
Unallocated corporate assets				402
Consolidated assets				634,086
Liabilities				
Segment liabilities	73,404	336	626	74,366
Bank and other borrowings				74,197
Deferred taxation				1,593
Tax payable				2,901
Unallocated corporate liabilities				3,035
Consolidated liabilities				156,092

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

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.

6. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2018

	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 results or segment assets					
Addition of property, plant and equipment	11,868	–	–	–	11,868
Depreciation of property, plant and equipment	(11,511)	–	–	–	(11,511)
Gain on disposal of property, plant and equipment	328	–	–	–	328
Fair value gain on investment properties	–	–	3,700	–	3,700
Allowance for inventories	(218)	–	–	–	(218)
Reversal of impairment losses (impairment losses), net					
– Trade receivables	323	–	–	–	323
– Loan receivables	–	(814)	–	–	(814)

6. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

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 results 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)

6. SEGMENT INFORMATION *(Continued)*

Information about major customers

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

Geographical information

The Group's operations are mainly located in Hong Kong, Mainland China and Macau. The following table provides an analysis of the Group's revenue by location of customers, irrespective of the origin of the goods/services:

	2018	2017
	HK$'000	HK$'000
Hong Kong	**295,566**	693,048
Mainland China	**42,529**	99,825
	338,095	792,873

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

	2018	2017
	HK$'000	HK$'000
Hong Kong and Macau	**84,889**	81,157
Mainland China	**7,740**	11,113
United Kingdom	**65,082**	62,089
	157,711	154,359

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Commission income	**5,547**	6,249
Bank interest income	**411**	294
Subsidies income from suppliers	**22,468**	3,847
Forfeited customers' deposits	**50**	450
Others	**1,958**	9,661
	30,434	20,501

8. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Net foreign exchange (loss) gain	**(3,192)**	5,418
Gain (loss) on disposal/written off of property, plant and equipment	**328**	(5,166)
Fair value gain on investment properties	**3,700**	7,600
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	**2,061**	–
Gain on disposal of investment in preference shares (note 18)	**–**	5,592
	2,897	13,444

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interests on bank and other borrowings	**1,751**	2,004

10. TAXATION

	2018	2017
	HK$'000	HK$'000
Current tax		
Hong Kong	**1,445**	848
Other jurisdictions	**507**	4,194
	1,952	5,042
(Over)/underprovision in prior years		
Hong Kong	**(233)**	–
Other jurisdictions	**49**	174
	(184)	174
Deferred tax (note 27)		
Current year	**–**	426
	1,768	5,642

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 the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%.

Accordingly, starting from the current year, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

10. TAXATION *(Continued)*

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

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

	2018 HK$'000	2017 HK$'000
(Loss) profit before taxation	(5,635)	91,514
Tax at the domestic income tax rate of 16.5% (Note)	(930)	15,100
Tax effect of expenses not deductible for tax purpose	754	1,170
Tax effect of income not taxable for tax purpose	(823)	(3,358)
(Over)/underprovision in respect of prior years	(184)	174
Tax effect of tax losses not recognised	4,487	1,618
Tax effect of deductible temporary differences	81	–
Deferred tax provided on undistributed earning of a PRC subsidiary	–	426
Utilisation of tax losses previously not recognised	(522)	(5,714)
Utilisation of temporary differences previously not recognised	–	(4,403)
Effect of different tax rates of subsidiaries	171	1,423
Effect of share of result of an associate	(1,101)	(794)
Income tax at concessionary rate	(165)	–
Taxation for the year	1,768	5,642

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

11. (LOSS) PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,200**	1,380
Depreciation of property, plant and equipment	**11,511**	16,623
Staff costs:		
Directors' emoluments		
(excluding retirement benefits scheme contributions)	**7,400**	13,976
Salaries and allowances	**39,948**	55,703
Share-based payments	**2,291**	2,164
Retirement benefits scheme contributions	**2,691**	2,635
	52,330	74,478
Cost of inventories recognised as expense	**227,515**	504,724
Allowance for inventories (included in cost of inventories)	**218**	1,134
Impairment losses on trade and other receivables and loan receivables, net	**491**	355
Operating lease payments in respect of rented properties	**39,773**	56,999

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

The emoluments paid or payable to each of five (2017: 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
2018						
Executive Directors						
Chong Tin Lung Benny	–	3,135	–	261	18	3,414
Lam Chi Yan	–	2,152	545	767	18	3,482
Independent Non-executive Directors ("INED"s)						
Antonio Maria Santos	180	–	–	–	–	180
Kong Kai Chuen Frankie	180	–	–	–	–	180
Lee Tiong Leong Ben	180	–	–	–	–	180
	540	5,287	545	1,028	36	7,436

12. DIRECTORS' AND CHIEF EXECUTIVE'S 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
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

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'S 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 (2017: two) were Directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (2017: three) individuals were as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and other benefits	**4,230**	4,048
Performance related incentive payments	**427**	2,457
Share-based payments	**545**	418
Retirement benefits scheme contributions	**54**	54
	5,256	6,977

Their emoluments were within the following bands:

	2018 **Number of** **employees**	2017 Number of employees
HK$1,000,000 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**–**	–
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. (LOSS) EARNINGS PER SHARE

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

	2018 HK$'000	2017 HK$'000
(Loss) profit for the year for the purpose of basic and diluted (loss) earnings per share	(7,403)	85,872

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss) earnings per share	5,219,541,190	5,219,541,190

For the year ended 31 December 2018, the computation of diluted loss per share does not assume the exercise of the Company's share options because the assumed exercise of share options world result in decrease in loss per share.

For the year ended 31 December 2017, the computation of diluted earnings per share does not assume the exercise of the share options granted 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.

14. INVESTMENT PROPERTIES

	HK$'000
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	3,700
At 31 December 2018	59,000

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.

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 a 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 2018 and 2017 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 7.25% (2017: 7.11%). A decrease in this adjustment would result in an increase in fair value measurement of the investment properties and vice versa. There were no transfers into or out of Level 3 during the year.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold 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 2017	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
Exchange adjustments	(383)	(279)	(76)	(8)	(746)
Additions	–	177	132	11,559	11,868
Disposals/write-off	(11)	(339)	(51)	(4,546)	(4,947)
At 31 December 2018	35,323	10,656	7,907	18,037	71,923
Depreciation					
At 1 January 2017	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
Exchange adjustments	(263)	(116)	(50)	(6)	(435)
Provided for the year	5,594	1,480	624	3,813	11,511
Eliminated on disposals/write-off	(4)	(194)	(32)	(507)	(737)
At 31 December 2018	29,252	6,852	7,444	7,499	51,047
Carrying values					
At 31 December 2018	6,071	3,804	463	10,538	20,876
At 31 December 2017	11,792	5,415	1,000	6,833	25,040

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

16. GOODWILL

	HK$'000
Cost	
At 1 January 2017, 31 December 2017 and 2018	2,788
Impairment	
At 1 January 2017, 31 December 2017 and 2018	(308)
Carrying values	
At 1 January 2017, 31 December 2017 and 2018	2,480

The Group tests goodwill annually or more frequently if there are indications that goodwill may be impaired.

For the purpose 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 trading of cars and related accessories and provision of car repairing services (collectively referred to as "**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 2018 and 2017, 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% (2017: 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 (2017: 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

	2018 **HK$'000**	2017 HK$'000
Cost of investment in an associate	**55,053**	55,053
Share of post-acquisition profit	**11,496**	4,822
Exchange adjustments	**(1,467)**	2,214
	65,082	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 follows:

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 activity
			2018	2017	**2018**	2017	
Dakota RE II Limited	BVI	United Kingdom	**27.49%**	27.49%	**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.

	2018 HK$'000	2017 HK$'000
Current assets	**27,810**	21,569
Non-current assets	**488,919**	506,351
Current liabilities	**(8,533)**	(12,863)
Non-current liabilities	**(263,811)**	(281,986)

	2018 HK$'000	2017 HK$'000
Profit and total comprehensive income for the year	**25,137**	18,636

17. INTEREST IN AN ASSOCIATE *(Continued)*

	2018	2017
	HK$'000	HK$'000
Net assets of Dakota RE II Limited	**244,385**	233,071
Non-controlling interests of Dakota RE II Limited's subsidiaries	**(7,637)**	(7,210)
	236,748	225,861
Proportion of the Group's ownership interest in Dakota RE II Limited		
The Group's share of net assets and carrying amount of the Group's interest in Dakota RE II Limited	**27.49%**	27.49%
	65,082	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 United States Dollars ("**USD**") 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 disposal of HK$5,592,000 was recognised.

19. INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods	174,793	136,646
Spare parts	10,015	15,316
	184,808	151,962

Included in the above figures are finished goods of HK$1,461,000 (2017: HK$1,792,000) which have been pledged as security for bank borrowings (note 31).

20. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	30,860	56,805
Less: Allowance for ECL	(69)	–
	30,791	56,805
Utility and rental deposits	1,221	2,192
Prepayments and other receivables	4,663	12,000
	36,675	70,997

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:

	2018 HK$'000	2017 HK$'000
Within 30 days	18,364	21,614
31 to 60 days	1,789	13,934
61 to 90 days	4,385	9,250
91 days to 1 year	6,206	9,065
Over 1 year	47	2,942
	30,791	56,805

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 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$6,253,000 which are past due as at the reporting date. Out of the past due balances, HK$6,253,000 has been past due 90 days or more and is not considered as in default due to the management's historical experience on the settlement pattern or record from these debtors.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

At 31 December 2017, included in the Group's trade receivable balances are receivables with aggregate carrying amounts of HK$12,007,000 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.

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

	2017 HK$'000
91 days to 1 year	9,065
Over 1 year	2,942
	12,007

Before the application of HKFRS 9 on 1 January 2018, in determining the recoverability of a trade receivable, the Group considers changes in the credit quality of the trade receivables from the date of credit initially granted up to the end of the reporting period.

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.

Upon the application of HKFRS 9 on 1 January 2018, the Group applied simplified approach on non-credit impaired trade receivables to provide for ECL prescribed by HKFRS 9. To measure the ECL, trade receivables have been assessed individually based on its own credit risk characteristics.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 35.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

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

	2018 HK$'000	2017 HK$'000
USD	**2,265**	–
Renminbi ("**RMB**")	**63**	70
Euro ("**EUR**")	**129**	11,574
GBP	**393**	–

21. LOAN RECEIVABLES

	2018 HK$'000	2017 HK$'000
Fixed-rate loans	**90,490**	35,220
Loss: Allowance for ECL	**(824)**	–
	89,666	35,220

As at 31 December 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 shares in Hong Kong with fair value of HK$56,000,000 (31 December 2017: HK$45,000,000). Loan receivable amounted to HK$15,220,000 (31 December 2017: HK$15,220,000) with original maturity in August 2018, further extended to August 2019, 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$31,898,000 (31 December 2017: HK$36,825,000).

Furthermore, loan receivables HK$55,270,000 with interest rate ranged from 8% per annum to 30% per annum and maturity date ranged from March 2019 to December 2019 were lent out to independent third parties during the year ended 31 December 2018, out of which loan receivables of HK$20,322,000 and HK$16,000,000 were secured by unlisted shares and listed shares in Hong Kong with fair values of HK$42,384,000. The remaining loan receivables were secured by residential properties located in United Kingdom with fair value of HK$58,678,000 and yacht with fair value of HK$34,000,000.

21. LOAN RECEIVABLES *(Continued)*

Before the application of HKFRS 9 on 1 January 2018, 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.

Upon the application of HKFRS 9 on 1 January 2018, loss allowance for loan receivables has been measured at an amount equal to lifetime ECL. Details of impairment assessment of loan receivables for the year ended 31 December 2018 are set out in note 35.

The Group's loan receivables denominated in foreign currencies of the relevant group entities are as follows:

	2018 **HK$'000**	2017 HK$'000
USD	**19,798**	–
GBP	**8,813**	–

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 1.00% per annum (2017: 0.01% to 0.26% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$44,014,000 (2017: HK$47,024,000) 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 (2017: 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:

	2018 **HK$'000**	2017 HK$'000
USD	**5,129**	23,111
RMB	**7**	24,101
EUR	**512**	2,376
GBP	**2**	1

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.

	2018 HK$'000	2017 HK$'000
Within 30 days	24,029	17,317
31 to 60 days	4,819	4,819
61 to 90 days	745	3,691
91 days to 1 year	631	4,808
Over 1 year	768	767
Trade and bills payables	30,992	31,402
Deposits received from customers	–	43,690
Advance payments from customers	3,378	3,280
Accrued charges	19,972	31,508
Other payables	5,330	11,214
	59,672	121,094

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

	2018 HK$'000	2017 HK$'000
USD	23,019	10,237
EUR	5,840	5,887
GBP	1	1

24. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018* HK$'000
Trading of cars		
– Receipt in advances	**17,729**	43,690

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The Group typically receives a deposit of approximately HK$250,000 on acceptance of each of the sales order, while the amount of deposits may be varied depending on different models of cars.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Cars HK$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	35,873

25. BANK AND OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank borrowings	**3,162**	4,900
Trust receipt loans	**44,875**	77,304
Other borrowings from restricted licensed banks	**1,087**	1,362
Other borrowings from a financial institution	**25,073**	22,600
	74,197	106,166
Secured	**74,197**	106,166
Carrying amount repayable:		
On demand or within one year	**72,815**	103,005
More than one year, but not exceeding two years	**1,382**	1,788
More than two years, but not more than five years	**–**	1,373
	74,197	106,166
Less: Amounts due within one year shown under current liabilities	**(72,815)**	(103,005)
Amounts shown under non-current liabilities	**1,382**	3,161

25. BANK AND OTHER BORROWINGS *(Continued)*

As at 31 December 2018, included in the carrying amount repayable on demand or within one year is a balance of HK$71,035,000 (2017: HK$101,266,000) that contains a repayable on demand clause.

As at 31 December 2018, the bank borrowings and other borrowings from restricted licensed banks are variable-rate borrowings which bear average effective interest rate at 5.27% per annum (2017: 4.87% per annum).

The other borrowings from a financial institution of HK$25,073,000 at 31 December 2018 are variable-rate borrowings with maturity from January 2019 to December 2019, which bear effective interest rate at 4.25%. The other borrowings from a financial institution of HK$22,600,000 at 31 December 2017, were variable-rate borrowings which bear effective interest rate at 4.25%, were fully repaid in 2018.

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

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 borrowings	
	2018	2017
	HK$'000	HK$'000
At 1 January	**106,166**	90,580
Financing cash flows	**(33,720)**	13,582
Interest expenses recognised	**1,751**	2,004
At 31 December	**74,197**	106,166

26. SHARE CAPITAL

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

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

27. DEFERRED TAXATION

As at 31 December 2018, deferred tax liabilities of HK$1,593,000 (2017: HK$1,593,000) represented the temporary differences associated with undistributed earnings of a PRC subsidiary, and an amount of HK$nil (2017: HK$426,000) was charged to profit or loss during the year.

During the year ended 31 December 2018, unused estimated tax losses of HK$12,814,000 (2017: HK$3,599,000) was lapsed due to deregistration of a subsidiary. At 31 December 2018, the Group had HK$164,014,000 (2017: HK$152,799,000) 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 2018, the Group had unrecognised tax losses of HK$nil (2017: HK$15,231,000) which will be expired in year 2021 which were subsequently utilized or forfeited as at date of report. Other losses may be carried forward indefinitely.

As the end of the reporting period, the Group has deductible temporary differences of HK$491,000 (2017: HK$nil) relating to impairment losses on trade and loan receivables. No deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

28. SHARE OPTION 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.

Options granted to a director, Chief Executive or substantial shareholder of the Company, or any of their respective associates, shall be approved by the INED (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.

28. SHARE OPTION SCHEMES *(Continued)*

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 highest 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, (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 2018, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Scheme was 216,764,000 (2017: 218,467,200) representing 4.15% (2017: 4.19%) of the shares of the Company in issue at that date.

28. 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 2018 and 2017:

Name or category of participants	Date of grant	Exercise price HK$	Exercisable period	As at 1 January 2018	Granted during the year	Forfeited/ lapsed during the year (Note 4)	As at 31 December 2018	Exercisable at 31 December 2018
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	0.093	15.6.2018 to 14.6.2023 (Note 2)	18,700,000	–	–	18,700,000	7,480,000
Dr Santos Antonio Maria	16.10.2014	0.184	16.4.2015 to 15.4.2020 (Note 3)	1,500,000	–	–	1,500,000	1,500,000
Mr Kong Kai Chuen Frankie	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)	7,216,200	–	(1,703,200)	5,513,000	5,513,000
	20.4.2015	0.351	20.4.2016 to 19.4.2021 (Note 2)	260,000	–	–	260,000	260,000
	15.6.2017	0.093	15.6.2018 to 14.6.2023 (Note 2)	18,700,000	–	–	18,700,000	7,480,000
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	0.093	15.6.2018 to 14.6.2023 (Note 2)	60,000,000	–	–	60,000,000	24,000,000
Total				218,467,200	–	(1,703,200)	216,764,000	
Weighted average exercise price				0.144	–	0.184	0.143	

28. SHARE OPTION SCHEMES *(Continued)*

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 4)	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	0.093	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	0.093	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	0.093	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	

28. 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) 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 (2017: nil) share options were exercised during the year ended 31 December 2018. 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 (2017: nil) share options were exercised during the year ended 31 December 2018. 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.

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. 14,960,000 (2017: nil) share option was exercisable during the year ended 31 December 2018.

28. SHARE OPTION SCHEMES *(Continued)*

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. 24,000,000 (2017: nil) share option was exercisable during the year ended 31 December 2018.

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%

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 2018, the Group recognised the total expense of HK$2,836,000 (2017: HK$3,062,000) in administrative expenses for year ended 31 December 2018 in relation to share options granted by the Company.

29. RETIREMENT BENEFITS SCHEMES

The relevant subsidiaries in Mainland China are required to make contributions to the state-managed retirement schemes in the PRC based on a specific percentage of the payroll costs of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The government in Mainland China is responsible for the pension liability to these retired staff.

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,500.

For subsidiaries other than in Hong Kong and Mainland China, contributions are made to the defined contribution schemes by the Group at rates specified on the rules of the schemes at the relevant jurisdiction.

The total cost of HK$2,691,000 (2017: HK$2,635,000) recognised to profit or loss represents contributions payable to these schemes by the Group during the year.

30. OPERATING LEASE COMMITMENTS

The Group as lessees

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**37,701**	26,723
In the second to fifth year inclusive	**35,149**	18,606
	72,850	45,329

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

30. OPERATING LEASE COMMITMENTS *(Continued)*

The Group as lessor

Property rental income earned during the year was HK$1,816,000 (2017: HK$1,816,000). 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:

	2018	2017
	HK$'000	HK$'000
Within one year	**801**	1,923
In the second to fifth year inclusive	**–**	801
	801	2,724

31. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to banks to secure the bank borrowings granted to the Group:

	2018	2017
	HK$'000	HK$'000
Inventories	**1,461**	1,792
Pledged bank deposits	**44,014**	47,024
Investment properties	**59,000**	55,300
	104,475	104,116

32. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, the Group entered into the following transactions 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.

	2018	2017
	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:

	2018	2017
	HK$'000	HK$'000
Fees	**540**	540
Salaries and other benefits	**6,919**	5,948
Performance related incentive payments	**1,162**	9,846
Share-based payments	**1,089**	1,316
Retirement benefits scheme contributions	**54**	54
	9,764	17,704

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

33. CAPITAL COMMITMENTS

At 31 December 2018 and 2017, the Group has no capital commitments in respect of the acquisition of property, plant and equipment contracted but not provided for.

34. DIVIDEND

No dividend was paid or proposed during year ended 31 December 2018 (2017: Nil), nor has any dividend been proposed since the end of the reporting period (2017: Nil).

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	–	413,437
Amortised costs	288,451	–
Financial liabilities		
Amortised cost	113,897	152,061

Financial risk management objectives and policies

The Group's financial instruments include 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.

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

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

***Market risk** (Continued)*

Currency risk (Continued)

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

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**27,192**	23,111	**23,019**	10,237
RMB	**20,574**	63,703	**–**	–
EUR	**641**	13,950	**5,840**	5,887
GBP	**9,208**	1	**1**	1

Sensitivity analysis

As HK$ is pledged to USD, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the HK$/USD exchange rates. As a result, the directors consider that the sensitivity of the Group's exposure towards the change in foreign exchange rates between HK$/USD is minimal.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in HK$ against RMB, EUR and GBP. 5% (2017: 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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

Sensitivity analysis (Continued)

A positive number below indicates an increase in post-tax loss (2017: a decrease in post-tax profit) for the year where HK$ strengthen 5% (2017: 5%) against RMB, EUR and GBP. For a 5% (2017: 5%) weakening of HK$ against RMB, EUR and GBP, there would be an equal and opposite impact on the post-tax loss (2017: profit) for the year as set out below:

	RMB impact		EUR impact		GBP impact	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Increase in post-tax loss (2017: decrease in post-tax profit)	**859**	2,667	**(217)**	337	**384**	–

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.

35. 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 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 25 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/loss for the year ended 31 December 2018 would increase/decrease by approximately HK$165,000 (2017: HK$313,000). 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/loss for the year ended 31 December 2018 would increase/decrease by approximately HK$310,000 (2017: HK$443,000).

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.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade and other receivables, loan receivables, and bank balances and pledged bank deposits as at 31 December 2018 and 2017.

As at 31 December 2018, 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.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with loan receivables are mitigated because they are secured over properties, listed securities, unlisted securities and yacht.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Under HKAS 39, impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 January 2018, the Group applies simplified approach on non-credit impaired trade receivables to provide for ECL prescribed by HKFRS 9. To measure the ECL, trade receivables and loan receivables have been assessed individually based on its own credit risk characteristics.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's receivables, which are subject to ECL assessment:

2018	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost				
Trade receivables – goods and services	20	(Note 1)	Lifetime ECL (not credit impaired and assessed individually)	30,860
Loan receivables	21	(Note 1)	12-month ECL (not credit impaired and assessed individually)	90,490

Note:

1. The Group determines the expected credit losses on these items grouped by internal credit rating and past due status and the average loss rates for trade receivables and loan receivables are ranged from 0.03% to 1.50% and from 0.03% to 2.58% respectively.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The debtors are assessed individually with significant balance by reference to past default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position.

The estimated loss rates are estimated based on historical observed defaults rate over expected life of the debtors and are adjusted for forward-looking information (for example, the economics growth rates which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The rates are regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

Since the application of HKFRS 9 on 1 January 2018, there has been no change in the estimation techniques or significant assumption made.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and loan receivables:

	Lifetime ECL (not credit-impaired) trade receivables HK$'000	12m ECL (not credit-impaired) loan receivables HK$'000	Total HK$'000
As at 31 December 2017, under HKAS 39	–	–	–
Adjustment upon application of HKFRS 9	392	10	402
As at 1 January 2018, as restated	392	10	402
Changes due to financial instruments recognised as at 1 January:			
– Impairment loss reversed	(392)	–	(392)
New financial assets originated	69	814	883
As at 31 December 2018	69	824	893

At 31 December 2018 and 2017, the Group has significant concentration of credit risk on loan receivables. In order to minimise credit risk, 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.

The credit risk for pledged bank deposits and bank balances as at 1 January 2018 and 31 December 2018 is considered as not material as such amount is placed in reputable banks with high credit ratings assigned by international credit-rating agencies. There has been no history of default in relation to these banks and thus the risk of default is regard as low. No loss allowance provision for pledged bank deposits and bank balances was recognised upon application of HKFRS 9.

During the year ended 31 December 2018, the Group reversed HK$392,000 impairment losses for trade receivables due to the settlement from trade debtors.

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

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.

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 2018						
Non-derivative financial liabilities						
Trade and other payables	–	**39,700**	–	–	**39,700**	**39,700**
Bank and other borrowings	**5.01**	**73,726**	**1,369**	–	**75,095**	**74,197**
		113,426	**1,369**	–	**114,795**	**113,897**
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

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

35. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

As at 31 December 2018, the aggregate undiscounted principal amount of bank and other borrowings with repayment on demand clause amounting to HK$71,035,000 (2017: HK$101,266,000) 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 HK$'000	3 months to 1 year HK$'000	1 year to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at the end of the reporting period HK$'000
Bank and other borrowings						
As at 31 December 2018	**5.17**	**71,899**	**–**	**–**	**71,899**	**71,035**
As at 31 December 2017	4.66	102,246	–	–	102,246	101,266

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which 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.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2018 and 2017 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		Principal activities
				2018 %	2017 %	
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

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Fully paid-up and issued/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2018 %	2017 %	Principal activities
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
Concept Will Limited	Hong Kong	Ordinary	HK$1	**100#**	100#	Provision of pre-delivery inspection consultancy services of Audi in Hong Kong
勵快駿投資咨詢(上海)有限公司##	Mainland China	N/A	HK$1,000,000	**100#**	100#	Provision of pre-delivery inspection consultancy services and warranting services of Ferrari and Maserati cars in Shanghai
Taine Holdings Limited	British Virgin Islands	Ordinary	USD1	**100#**	100#	Provision of financial services
Auto Italia (Finance) Limited	Hong Kong	Ordinary	HK$1	**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
Elite Jumbo Limited	British Virgin Island	Ordinary	USD1	**100#**	100#	Investment holding

\# These entities are indirectly held by the Company.

\#\# This entity is wholly foreign owned enterprises registered in Mainland China.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2018 HK$'000	2017 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**23,394**	23,394
Amount due from a subsidiary	**55,063**	55,063
	78,457	78,457
Current assets		
Other receivables	**416**	947
Amounts due from subsidiaries	**237,383**	177,585
Bank balances and cash	**39,616**	76,225
	277,415	254,757
Total assets	**355,872**	333,214
Current liabilities		
Other payables	**3,034**	9,631
Amounts due to subsidiaries	**33,430**	–
Total liabilities	**36,464**	9,631
Total assets less current liabilities	**319,408**	323,583
Capital and reserves		
Share capital (note 26)	**104,391**	104,391
Reserves (Note)	**215,017**	219,192
Total equity	**319,408**	323,583

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

Note:

Reserves of the Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	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
Loss and total comprehensive expense for the year	–	–	–	–	(7,011)	(7,011)
Recognition of equity settled share-based payments	–	–	2,836	–	–	2,836
Transfer upon lapse of share options	–	–	(154)	–	154	–
At 31 December 2018	249,345	2,151	16,173	46,396	(99,048)	215,017

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Results					
Revenue from continuing operations	**338,095**	792,873	742,484	973,140	1,095,363
(Loss) profit for the year	**(7,403)**	85,872	(12,375)	27,756	36,305
Attributable to:					
Owners of the Company	**(7,403)**	85,872	(12,375)	27,756	27,576
Non-controlling interests	**–**	–	–	–	8,729
	(7,403)	85,872	(12,375)	27,756	36,305
Assets and liabilities					
Total assets	**634,086**	725,743	829,250	775,878	763,981
Total liabilities	**(156,092)**	(235,058)	(430,494)	(373,578)	(404,885)
Net assets	**477,994**	490,685	398,756	402,300	359,096
Equity attributable to owners of the Company	**477,994**	490,685	398,756	402,300	359,096
Total equity	**477,944**	490,685	398,756	402,300	359,096

GLOSSARY OF TERMS

In this annual report, unless the context otherwise requires, the following expressions have the meanings as mentioned below:

"12m ECL"	the 12-month ECL;
"AGM"	the annual general meeting of the Company to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 29 May 2019 at 11:00 a.m. or any adjournment thereof;
"Agreement"	referred to note 18 of the consolidated financial statements;
"Alfa Romeo"	a brand is known for sporty vehicles of an Italian luxury car;
"associate(s)"	shall have the meaning ascribed to it in the Listing Rules;
"Audit Committee"	the audit committee of the Company;
"Bill"	The Inland Revenue (Amendment) (No. 7) Bill 2017;
"Board"	the board of Directors;
"Bye-laws"	the bye-laws of the Company as amended, supplemented or otherwise modified from time to time;
"Car Division"	the business segment of the Group in respect of trading cars and related accessories;
"CG Code"	the Corporate Governance Code contained in Appendix 14 of the Listing Rules;
"Chief Executive Officer"	the chief executive officer of the Company;
"CO_2e"	carbon dioxide equivalent;
"Code"	HKICPA's Code of Ethics for Professional Accountants;
"CODM"	the chief operating decision maker of the Company;
"Companies Act"	Companies Act 1981 of Bermuda (as amended), supplemented or otherwise modified from time to time;

"Companies Ordinance"	Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
"Company Secretary"	the company secretary of the Company;
"Company"	AUTO ITALIA HOLDINGS LIMITED, an exempted company incorporated in Bermuda with limited liability, whose Shares are listed on the main board of the Stock Exchange;
"Director(s)"	the director(s) of the Company;
"ECL"	expected credit losses;
"EIT Law"	the law of the PRC on enterprise income tax;
"ESG"	the environmental, social and governance;
"ESG Guide"	Environmental, Social and Governance Reporting Guide contained In Appendix 27 of the Listing Rules;
"EUR"	Euro, the lawful currency of European Union;
"Executive Chairman"	the chairman of the Board;
"Executive Director(s)"	the executive director(s) of the Company;
"Executive Directors' Committee"	the executive directors' committee of the Company;
"Ferrari"	An Italian luxury sports car manufacturer based in Maranello;
"Financial Control Committee"	the financial control committee of the Company;
"Financial Investments and Services Division"	the business segment of the Group in respect of securities investment, financing and corporate finance services;
"FVTOCI"	the fair value through other comprehensive income;
"FVTPL"	the fair value through profit or loss;

"GBP"	the Great British pound, the lawful currency of the United Kingdom ;
"GEM"	GEM operated by the Stock Exchange under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange;
"Group"	the Company and its subsidiaries;
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong;
"HKFRSs"	Hong Kong Financial Reporting Standards;
"HKICPA"	Hong Kong Institute of Certified Public Accountants;
"HKSAs"	Hong Kong Standards on Auditing;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Non-executive Director(s)" or "INED(s)"	the independent non-executive director(s) of the Company;
"Investee"	referred to note 18 of the consolidated financial statements;
"Investment"	referred to note 18 of the consolidated financial statements;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented or otherwise modified from time to time;
"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM;
"Management"	the management of the Group formed by the heads of the departments and/or divisions of the Group;
"Maserati"	an Italian luxury vehicle manufacturer, was initially associated with Ferrari S.p.A., and recently becomes partial of the sporty vehicles group including Alfa Romeo;

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules;
"Nomination Committee"	the nomination committee of the Company;
"PDI"	pre-delivery inspection;
"PRC" or "Mainland China" or "China"	The People's Republic of China, which for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Property Investment Division"	the business segment of the Group in respect of property investment;
"Remuneration Committee"	the remuneration committee of the Company;
"Report"	the annual report of the Company for the year ended 31 December 2018;
"Reporting Period"	the reporting period for the year ended 31 December 2018;
"RMB"	Renminbi, the lawful currency of the PRC;
"RMTF"	the risk management taskforce;
"sales of cars"	referred to note 16 of the consolidated financial statement;
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"SGM"	the special general meeting of the Company;
"Share Option Scheme" or "2012 Scheme"	the share option scheme adopted by the Company on 28 May 2012;
"Share(s)"	ordinary share(s) of HK$0.02 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"Stock Code"	the stock code on the Main Board and GEM;
"Stock Exchange" or "HKEx"	The Stock Exchange of Hong Kong Limited;

"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules;
"SWCS"	SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), the company secretarial services provider;
"Third Party"	referred to note 18 of the consolidated financial statements;
"USD"	United States Dollars, the lawful currency of the United States of America;
"Vesting Date"	the date or each such date on which the Share Options are to vest;
"Vice-Chairman"	the vice chairman of the Board;
"VMS Securities"	VMS Securities Limited;
"VMSIG"	VMS Investment Group Limited, the substantial shareholder of the Company;
"%"	per cent.