AUTO ITALIA

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

(Incorporated in Bermuda with limited liability)

Stock Code: 720

2019 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

Ms KWONG Yin Ping Yvonne

AUTHORISED REPRESENTATIVES

Mr CHONG Tin Lung Benny
Ms KWONG Yin Ping Yvonne

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

PRINCIPAL OFFICE IN HONG KONG

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Siu Lek Yuen
Shatin, Hong Kong
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PRINCIPAL BANKERS

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

LEGAL ADVISORS

As to Hong Kong Law

Chiu & Partners
Howse Williams Bowers

As to Bermuda Law

Appleby

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Estera Management (Bermuda) Limited
(to be renamed as Ocorian Management (Bermuda) Limited with effect from 6 April 2020)
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Standard Limited
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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 2019.

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. In addition, the Group is also engaged in property investment, as well as financial investments and services.

2019 saw the Group face numerous headwinds along with the rest of Hong Kong; the year recorded a net loss of approximately HK$24.1 million for the year ended 31 December 2019, as compared to a net loss of approximately HK$7.4 million for the previous year. The Group's consolidated revenue also dropped by 31% to HK$232 million due to the decline in revenue of the car division, owing to uncertain economic environment and weak market sentiment. Despite such difficulties, the Group managed to improve the debt to equity ratio to 1.2% for the year ended 31 December 2019 from 15.5% for the previous year.

As Hong Kong experienced a decline in the passenger car market primarily caused by the ongoing social unrest, the overall luxury sports car segment also felt the pinch; the number of car registrations for Maserati vehicles decreased by 35% in 2019 relative to 2018.

That being said, the market share for Maserati vehicles has remained steady relative to the previous years, with Ghibli, Levante, and GranCabrio managing to capture more than 10% in their respective segments. Besides, we have many accomplishments to be proud of, and much to look forward to this year. We launched our brand-new Macau Maserati showroom and service centre in May 2019, with revenues of HK$6.4 million.

Certain exciting developments in 2020 may allow us to consolidate market share in the foreseeable future—these include the introduction of several exciting new Maserati models, including the Levante Trofeo and Levante GTS, and special limited editions. We will also make history with the brand's global MMXX launch, a "super car" with an innovative EV powertrain.

Beyond our car operations, our Group allocated capital in 2019 to areas where the highest potential for growth and returns were apparent.

Our Financial Investments and Services Division adopted a cautious and prudent approach in 2019, all the better to weather the uncertainties of the Sino-US trade dispute, the ongoing political turbulence in Hong Kong and other economically disruptive events. This is an approach we will continue into 2020, by maintaining a portfolio with limited exposure.

Our 2019 year-end loan portfolio narrowed to HK$70.1 million from HK$89.7 million in 2018. Hence, our revenues of HK$8.6 million in 2019 moved down from 2018's HK$10.9 million; and segment profit decreased to HK$5.2 million, down from 2018's HK$6.7 million.

Even in the midst of the uncertain HK property situation in 2019, our Property Investment Division recorded a consistent rental income from leasing Company-owned property, the Group's indirect investment in an office building in Glasgow, Scotland also allowed us to enjoy a stable income stream from the property's rental revenue. We also renewed the lease with the tenant in June 2019, increasing rental income by 15%.

Looking ahead, we remain cautiously optimistic about 2020's prospects. The spread of the novel coronavirus epidemia ("**COVID-19**") and Sino-US trade dispute may deter consumption in the near term, but many positive factors on our side allow us to remain optimistic in our ability to bring long-term value enhancement to our shareholders.

The year ahead will also see the Group pursuing an exciting new direction, with its investment in an associate company, Chime Biologics Limited ("**CBL**") in January 2020.

CBL is a provider of biologics contract development and manufacturing organisation (the "**CDMO**") services to biotech and pharmaceutical companies. CBL owns an advanced laboratory and oversees more than 130 employees with industry-leading expertise.

This new investment will allow the Group to take advantage of the market's extraordinary potential. A Technavio report predicts that the CDMO outsourcing market will reach USD36.51 billion by 2023, progressing at a CAGR of close to 8% over five years. The Group is now recruiting experienced management and talent candidate to join as senior position and help us achieve headlong growth in this promising new field.

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, 25 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

CAR DIVISION

Revenue

The Car Division's revenue in 2019 decreased by 31.9% to HK$221.4 million (2018: HK$325.3 million).

In mainland China, the revenue decreased to HK$26.3 million (2018: HK$42.5 million) mainly caused by the decrease of number of Maserati which underwent for Pre-Delivery Inspection ("**PDI**") service and the completion of the Alfa Romeo PDI service business in second half of 2018.

In Hong Kong, the overall revenue dropped 33.2% to HK$188.8 million (2018: HK$282.8 million) primarily due to the decrease of new Maserati car sales. In Macau, the new Maserati Macau Showroom and Service Centre was officially opened in May 2019 and generated revenue of HK$6.4 million.

Cost of Sales and Gross Profit

Gross profit margin increased 3.6 percentage points to 28.6%. Our gross profit decreased from HK$81.5 million in 2018 to HK$63.4 million owing to the decrease in car unit sales of Maserati in Hong Kong operation.

Other Income

For the year ended 31 December 2019, other income amounted to HK$24.2 million (2018: HK$30.4 million). The net decrease of HK$6.2 million was mainly caused by the decrease of marketing supports from the supplier.

Other Gains and Losses and Impairment Losses, Net

Other gains and losses and impairment losses, net, amounted to a net gain of HK$0.6 million (2018: HK$0.8 million) which included gain on disposal of property, plant and equipment of HK$0.4 million and net foreign exchange gain of HK$0.2 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2019 aggregated to HK$116.3 million (2018: HK$128.1 million), which accounted for 52.5% (2018: 39.4%) of revenue. The net decrease of HK$11.8 million was mainly due to a decrease in marketing expenses and staff related cost resulting from our cost optimization and restructuring plan.

Finance Costs

Finance costs in 2019 were increased to HK$3.6 million (2018: HK$1.6 million) which included interest on lease liabilities of HK$2.2 million (2018: Nil).

Financial Investments and Services and Property Investment Divisions

Operating Results

As at 31 December 2019, the loan receivables narrowed to HK$70.1 million from HK$89.7 million in 2018. Hence, the revenue of Financial Investments and Services Division for the year ended 31 December 2019 decreased to HK$8.6 million (2018: HK$10.9 million), representing a decrease of HK$2.3 million. Segment profit decreased by HK$1.5 million to HK$5.2 million (2018: HK$6.7 million).

Furthermore, the Property Investment Division recorded a rental income of HK$2.0 million for leasing the property of the Group to a third party (2018: HK$1.8 million) and record a fair value loss of HK$2.5 million on the investment property (2018: gain of HK$3.7 million). In June 2019, the Group renewed the lease with the tenant and increasing rental income by 15%. For indirect investment in an office building in Glasgow, Scotland, the share of profit from such investment for the year ended 31 December 2019 was HK$14.1 million (2018: HK$6.7 million). The increase of HK$7.4 million was mainly contributed by the share of the fair value gain of the property of HK$10.2 million (2018: HK$2.7 million).

Loss Attributable to Shareholders

Loss attributable to shareholders of the Company for the year was HK$24.1 million (2018: HK$7.4 million). Such loss is primarily caused by the decrease in new car sales in Hong Kong and decrease in income from the provision of PDI service in Mainland China due to uncertain economic environment and ongoing social unrest.

Liquidity and Financial Resources

Cash and Cash Equivalents

As at 31 December 2019, the Group had cash and cash equivalents (including pledged bank deposits) of HK$148.0 million as compared with HK$165.2 million as at 31 December 2018, which were denominated in Hong Kong dollars (as to 81.2%), British Pound (as to 7.8%), Renminbi (as to 6.8%), U.S. dollars (as to 3.8%) and Macau Pataca (as to 0.4%).

Bank and Other Borrowings Loans

As at 31 December 2019, the Group had bank and other borrowings totalling HK$5.3 million (2018: HK$74.2 million), all were repayable within one year. Net cash position as at 31 December 2019 was HK$142.7 million (2018: HK$91 million). The Group debt to equity ratio for the year ended 31 December 2019 improved to 1.2% from 15.5% for the year ended 31 December 2018 based on the total of current and non-current bank and other borrowings of HK$5.3 million (2018: HK$74.2 million) and total equity of HK$456.9 million (2018: HK$478.0 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 2019, the Group had outstanding secured loans lent to customers totalling HK$70.1 million (31 December 2018: HK$89.7 million), which carry an interest rate range from 7.5% to 30% per annum and were repayable within 12 months.

Pledge of Assets

As at 31 December 2019, certain of the Group's properties, bank deposits, inventories totalling HK$100.5 million (2018: HK$104.5 million) were pledged as securities for relevant bank loans and other bank facilities granted.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2019, the Group had total capital commitments of HK$0.67 million (2018: HK$0.35 million), all capital commitments as at 31 December 2019 and 2018 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 2019, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

On 29 January 2020, the Group entered into the CBL Subscription Agreement for subscription of 51,847,997 series A preferred shares of CBL at consideration of US$32 million. The subscription was completed in February 2020 and CBL becomes 11.82% share owned associate company of the Group. CBL is a provider of biologics CDMO services to biotech and pharmaceutical companies. CBL owns an advanced laboratory and oversees more than 130 employees with industry-leading expertise. For details, please refer to the announcement dated 29 January 2020.

HUMAN RESOURCES

As at 31 December 2019, the Group employed a total of 111 employees in Hong Kong, Macau and Mainland China. 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

2019 was a challenging year for the luxury automobile market in Hong Kong. As reported by Hong Kong's Census and Statistics Department, total value of motor vehicles and parts retail sales in 2019—estimated at HK$15.81 billion—decreased by 5.9% from 2018's HK$16.81 billion, affected by the turbulent political situation and social unrest depressing customers' appetite for spending. Total registration of passenger car also experienced a drop of 11% from 42,287 units in 2018 to 37,500 units in 2019.

Maserati felt the squeeze as well: the year saw close to 200 units sold. Despite the economic uncertainty, Maserati recorded an overall market share of 9%, unchanged since the previous year.

Maintaining Maserati's sales performance in a challenging period was made possible by adopting a flexible and diversified marketing approach, executed through brand-building events and Customer Relationships Management programmes.

Maserati participated in the Longines Masters 2019 in February as the event's official car sponsor. Our front-and-centre exposure in this world-class event helped to build awareness of our brand for discerning high net worth individuals ("**HNWs**").

We also held four auto shows in Hong Kong's premium shopping malls in 2019, and offered our fans an opportunity to test-drive both on-road and off-road capability of Levante through our Ultimate Driving event in April.

On top of these high-profile occasions, we had also maintained a monthly schedule of exclusive events designed for client acquisition, including collaboration with select high-end retail brands and premium banking services.

Our solid follow-through on operational guidelines enabled the Group to maintain high levels of customer satisfaction in 2019. Through our focus on four key elements in relation to ownership experience—customer centricity, simplicity, speed and agility—service throughput increased by 4.1% in 2019 as compared to the previous year.

Service penetration increased to 73%, up from 69% in 2018. As a result, customer numbers increased by 4%, and after-sales overall revenue in 2019 increased by 8.8%.

The Group expanded its reach to Hong Kong's sister SAR with a new Macau Maserati showroom and service center, which officially opened in May 2019. Our participation in the Macau Auto Show in June and the China (Macau) International Automobile exposition in October offered Maserati another chance to increase brand and product awareness.

All these events were supported with print and online media advertising, direct mail to high-end homes, as well as promotion on social media, all targeting business & finance, luxury lifestyle HNWs. In Macau, we collaborated with our casino partners to execute our marketing promotions, including car displays and a grand lucky draw.

As the business environment in Hong Kong, Macau and Greater China area grow increasingly unpredictable, the Group counts on its continued investment in systems and human resources and cost-saving measures to maintain its efficiency levels.

Pre-Delivery Inspection

The overall revenue derived from the PDI service in mainland China decreased to HK$26.3 million (2018: HK$42.5 million). The apparent drop of 38% in revenue resulted primarily from the decrease of number of Maserati which underwent for PDI service and the completion of the Alfa Romeo PDI service business in second half of 2018. The Group is currently in discussion with Maserati for the new service agreement and exploring a new business model to cope with the new business situation.

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 uncertainties of the Sino-US trade dispute, the ongoing political turbulence in Hong Kong and other economically disruptive events create economic uncertainty and challenges. The Group continue adopt a prudent and cautious approach when conducting our financing business, the 2019 year-end loan portfolio narrowed to HK$70.1 million from HK$89.7 million in 2018. Hence, our revenues of HK$8.6 million in 2019 moved down from 2018's HK$10.9 million.

For the property investment business, the Group continued to earn a rental income of HK$2 million (2018: HK$1.8 million) from leasing the investment property. Despite the uncertain Hong Kong property situation in 2019, we renewed the lease with the tenant in June 2019, increasing rental income by 15%. The Group's indirect investment in an office building in Glasgow, Scotland also allowed us to enjoy a stable income stream from the property's rental revenue. The share of profit from such investment for the year ended 31 December 2019 was HK$14.1 million (2018: HK$6.7 million). The increase of HK$7.4 million was mainly contributed by the share of the fair value gain of the property of HK$10.2 million (2018: HK$2.7 million).

OUTLOOK

The outbreak of COVID-19 since early 2020 has posed uncertainties on the global economy. The Group will closely monitor the effect that could be caused by COVID-19 on the business operation and financial position of the Group. The Group has taken the opportunity to streamline its business process in order to maintain the leanest cost structure possible, to cope with the upcoming challenges and uncertainties.

With our resurgent presence in Macau, the strong performance of our after-sales service, and the steady growth of our non-automotive Divisions, the Group will continue to chart a steady course as economic headwinds buffet the Greater China area.

In 2020, we confidently expect a positive reaction from the upcoming launches of new Maserati models: the luxury SUV Levante Trofeo & Levante GTS; the special limited-editions; and most anticipated of all, the MMXX project from the brand, pairing Maserati high performance with a brand-new EV powertrain.

The Group will continue to surprise future Maserati customers with a regular series of events, experiences and announcements, driven by innovative marketing campaigns that enhance our brand exposure throughout the region.

2020 will see the Group pursuing an exciting new direction with its investment in an associate company, CBL, a provider of biologics development and manufacturing services to biotech and pharmaceutical companies. CBL owns an advanced laboratory and oversees more than 130 employees with industry-leading expertise, placing the Group in an extraordinary position to take advantage of the field’s extraordinary growth potential.

In summary, thanks to our prime position to take advantage of future opportunities in the auto, property and financial investment sectors, the Group will continue to enhance value for our Shareholders, this year and in the long term.

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 47, 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 53, 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 28 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 63, 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 A.M. Santos Financial Consultant 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, 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) and Code Agriculture (Holdings) Limited (a company listed on GEM of the Stock Exchange, Stock Code: 8153).

Mr KONG Kai Chuen Frankie

Independent Non-executive Director

Mr KONG Kai Chuen Frankie, aged 56, 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 28 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 58, 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 16 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 42, 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 20 years of experience in accounting, financial management and auditing. Mr Lin holds a Bachelor's Degree of Accountancy from the Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountant, a member of the Hong Kong Institute of Certified Public Accountant and an international associate of the American Institute of Certified Public Accountant.

DIRECTORS' REPORT

The Directors present this Report and audited consolidated financial statements of the Group for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities and other particulars of the principal subsidiaries are set out in note 40 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 2019, 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 14 of this Report respectively. These discussions form part of this Directors' Report.

Financial key performance indicators

	2019 **HK$'000**	2018 HK$'000	Change percentage
Total Revenue	**231,942**	338,095	-31.40%
Loss before taxation	**(23,546)**	(5,635)	-317.85%
Bank and other borrowing	**5,323**	74,197	-92.83%
Equity attributable to owners of the Company	**456,917**	477,994	-4.41%
Loss per Share – Basic	**(HK0.46 cent)**	(HK0.14 cent)	-228.57%
Loss per Share – Diluted	**(HK0.46 cent)**	(HK0.14 cent)	-228.57%
Dividend per Share	**0**	0	0%
Dividend pay-out ratio	**0%**	0%	0%
Debt-to-equity ratio	**1.2%**	15.5%	-92.26%

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

Compliance with Laws and Regulations

As at 31 December 2019 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 2019, 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 elderly, 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.

The Group also being awarded the Caring Company Logo 2019/20, launched by The Hong Kong Council of Social Service. The Caring Company Logo is awarded to companies which demonstrate good corporate citizenship. It aims to promote corporate social responsibility through caring for community, employees and the environment.

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 59 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

Details of future development and important events of the Group after the end of the financial year are provided in the sections headed "Chairman's Statement" on pages 4 to 6 and "Management Discussion and Analysis" on pages 7 to 14, respectively.

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 2019 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 66 to 158 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 159.

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 2019:

(i) the financial results of the Company for the year end 31 December 2019;

(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 2019 (2018: Nil). No interim dividend was paid during the year ended 31 December 2019 (2018: Nil).

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Wednesday, 27 May 2020. 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 FOR ANNUAL GENERAL MEETING

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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 20 May 2020. The register of members of the Company will be closed from Thursday, 21 May 2020 to Wednesday, 27 May 2020 (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 28 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 30 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 70 and page 158 of this Report respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distributions to Shareholders as at 31 December 2019 comprised the Share premium, Share option reserve plus accumulated losses with an aggregate amount of approximately HK$163,102,000 (2018: HK$166,470,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 16 to the consolidated financial statements.

DONATIONS

During the year, the Group made charitable and other donations of HK$39,530 (2018: HK$44,495).

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the Group's borrowings are set out in note 26 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 82.6% of the Group's purchases during the year, 69.7% being attributable to the largest supplier. The percentage of turnover attributable to the Group's five largest customers is less than 13.7% 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 2019. 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 2019.

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 LAM Chi Yan and Dr SANTOS Antonio Maria 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 15 to 17 of this Report.

Changes in Information of Directors

The changes in Directors' information since the disclosure made in interim report of the Company for 2019 are set out below.

Dr SANTOS Antonio Maria had been appointed as an independent non-executive director of Code Agriculture (Holdings) Limited (a company listed on GEM of the Stock Exchange, Stock Code: 8153) on 9 July 2019.

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 13 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 2019, 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 2019 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 2019, 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 2019 are disclosed in the section headed "Share Option Scheme" of this Report.

DIRECTORS' INTERESTS IN ASSETS TRANSACTION AND/OR ARRANGEMENT

At 31 December 2019, 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 2019, 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 2019.

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 2019 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 2019, 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	1,519,016,472 (Note)	29.10%
Ms MAK Siu Hang Viola	1,519,016,472 (Note)	29.10%

[#] Based on the total issued Shares of 5,219,541,190 at 31 December 2019.

Note:

VMSIG and parties acting in concert with it are interested in an aggregate of 1,519,016,472 Shares, of which 1,214,291,472 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 2019, 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 2019 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, (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 2019 were as below:

Name or category of participants	Date of grant	Exercise price *(HK$)*	Exercisable Period	As at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	As at 31 December 2019
(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)*	5,513,000	–	–	(841,800)	4,671,200
	20/04/2015	0.3510	20/04/2016 to 19/04/2021 *(Note 2)*	260,000	–	–	–	260,000
	15/06/2017	0.0932	15/06/2018 to 14/06/2023 *(Note 2)*	18,700,000	–	–	–	18,700,000
(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				**216,764,000**	**–**	**–**	**(841,800)**	**215,922,200**

SHARE OPTION SCHEME *(Continued)*

Notes:

(1) The closing prices per Share immediately before 16 October 2014, 20 April 2015 and 15 June 2017 (the dates on which the Share options were granted) were HK$0.187, HK$0.335 and HK$0.093 respectively.

*(2) Share options granted under the 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 2019.

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 2019, 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, 25 March 2020

CORPORATE GOVERNANCE REPORT

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 2019, 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 2019, 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 meetings. During the year 2019, the Board had considered and approved the annual results of the Company for the year ended 31 December 2018; the re-election of retiring Directors and the matters to be considered at the annual general meeting of the Company held on 29 May 2019; the re-appointment of auditor of the Company; the renewal of service agreement of Executive Directors; the renewal of letter of appointment of an INED; the interim results of the Company for the period ended 30 June 2019; and the whistleblowing policy.

According to CG Code Provision A.2.7 of the CG Code, the Executive Chairman held meeting with the INEDs without the presence of other directors during the year.

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. 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 2019 and up to the date of this Report, all the Directors, namely Mr CHONG Tin Lung Benny, Mr LAM Chi Yan, Dr SANTOS Antonio Maria, Mr KONG Kai Chuen Frankie and Mr LEE Ben Tiong Leong, had participated in appropriate continuous professional development activities by ways of attending trainings organized by professional firm and/or reading materials relevant to the Company's businesses or to the Directors' duties and responsibilities.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has also arranged appropriate insurance cover for our Directors in respect of legal actions taken against Directors and officers.

BOARD COMMITTEES

To oversee different aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established the following Board Committees namely the Audit Committee, the Remuneration Committee, the Nomination Committee and Executive Directors' Committee. Terms of reference of each of these Committees are available on the Company's website at www.autoitalia.com.hk. All Committees are provided with sufficient resources to discharge their duties, and they are also authorised to obtain external legal or other independent professional advice if they consider it necessary to do so.

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 2019 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, re-appointment and removal 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 three meetings. During the year of 2019, 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 2019; considered the re-appointment of auditor of the Company; reviewed the audited accounts and final results announcement for the year ended 31 December 2018; reviewed the interim report and the interim results announcement for the six months ended 30 June 2019; reviewed the effectiveness of internal control and risk management systems of the Group; reviewed and considered the report of the annual internal control and risk management reviews of the Group; reviewed the related party transactions and compliance of the relevant Listing Rules and accounting policies in relation thereto; and reviewed the whistleblowing policy.

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) of the CG Code.

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 one meeting. During the year 2019, 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 and the remuneration package of each Executive Directors and senior management of the Company.

Nomination Committee

Currently, the members of the Nomination Committee comprise Mr CHONG Tin Lung Benny, one of the Executive Directors, Dr SANTOS Antonio Maria, Mr KONG Kai Chuen Frankie and Mr LEE Ben Tiong Leong, all of whom are INEDs. Mr CHONG Tin Lung Benny is the chairman of the Nomination Committee. It is primarily responsible for making recommendations to the Board on appointment of Directors regarding the qualifications and competency of the candidates. The terms of reference of the Nomination Committee 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 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 meeting. During the year 2019, 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 2019, the review of the structure, size and composition of the Board, and the review of Board diversity policy and nomination policy.

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 fifteen meetings. During the year 2019, the Executive Directors' Committee had considered and approved the change of the primary authorised person for e-Submission; the change of administration of e-submission user account; the grant of banking facilities; the loans granted by the Group to the independent third parties; the lapse of share options; the bank accounts opening; and renewal of the insurances.

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 held four times in 2019. The attendances of individual Director at these Board meetings and Board Committees' meetings held in 2019 are set out in the table below:

Name of Directors	Number of Board meetings attended/held	Number of Audit Committee meetings attended/held	Number of Remuneration Committee meetings attended/held	Number of Nomination Committee meetings attended/held	Number of Executive Directors' Committee meetings attended/held
Executive Directors:					
Mr CHONG Tin Lung Benny	4/4	N/A	1/1	1/1	15/15
Mr LAM Chi Yan	4/4	N/A	N/A	N/A	15/15
INEDs:					
Dr SANTOS Antonio Maria	4/4	3/3	1/1	1/1	N/A
Mr KONG Kai Chuen Frankie	4/4	3/3	1/1	1/1	N/A
Mr LEE Ben Tiong Leong	4/4	3/3	1/1	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 and make recommendations to the Board; (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 2019, 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 60 to 65 of this Report.

During the year of 2019, the auditor had performed audit and non-audit services and their remuneration in respect of audit and non-audit services is HK$1.12 million and HK$0.508 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.

To further enhance control awareness, the Group has also approved launching a whistleblowing policy for our stakeholders to raise any concerns about possible improprieties in any matter related to the Group. The whistleblowing policy of the Company was adopted on 22 October 2019. It is available on the website of the Company at www.autoitalia.com.hk.

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 2019. The attendance of individual Director at the general meeting held in 2019 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 29 May 2019 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 29 May 2019.

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, 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 2019. 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

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 2019.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2019 ("**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 and therefore we have established the ESG taskforce, which includes senior management as well as department heads of different functions. 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 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 regulations 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.

ESG GOVERNANCE *(Continued)*

We perform regular review on our risk management process, and assess our material risks, including ESG-related risks. The ESG taskforce and the Board are responsible to design and implement proper internal control measures to mitigate the ESG risks. Please refer to the "RISK MANAGEMENT AND INTERNAL CONTROL" section of the Company's "CORPORATE GOVERNANCE REPORT" for details of the our risk management and internal control systems.

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 high quality 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 the service 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 programmes 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.

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.

SOCIAL *(Continued)*

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.

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.

SOCIAL *(Continued)*

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.

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 2019 (in March 2019) organized by the World Wildlife Fund;
- 2019 Charity Walk (in March 2019) organized by the Suicide Prevention Services;
- The Community Chest Green Day 2019 (in June 2019) organized by The Community Chest;
- 2019 Annual Charity Event (in September 2019) organized by The Ten Percent Donation Scheme Foundation;
- Mooncake for Charity (in September 2019) organized by The Lok Sin Tong Benevolent Society Kowloon; and
- Blood Donation Day (in November 2019) organized by the Hong Kong Red Cross.

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	2019	2018
Nitrogen oxides ("**NOx**")	kilogram	**20.84**	34.50
Sulphur oxides ("**SOx**")	kilogram	**0.48**	0.69
Particular matter ("**PM**")	kilogram	**1.53**	2.66

As compared to 2018, the decrease of emissions of NOx, SOx and PM of the Group was mainly caused by the reduction in consumption of fuel 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 received any penalty from government for excessive emission of our vehicles and we do not note any violation of the 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 from the 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:

		2019		2018	
Type	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Motor oil	Tonnes	**8.8**	**0.043**	7.2	0.024
Antifreeze	Tonnes	**8.0**	**0.039**	0.4	0.001
Batteries	Tonnes	**0.2**	**0.001**	0.5	0.002

As compared to 2018, we discarded more motor oil and antifreeze as hazardous waste because of more frequent after-sales services while the orders for changing batteries decreased from 2018.

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:

		2019		2018	
Type	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Paper	Tonnes	**0.89**	**0.004**	1.27	0.004

As compared to 2018, the usage of paper in the Reporting Period decreased by 30% because of the effective 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.

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 ("$\mathbf{CO_2e}$") emission is as follows:

		2019		2018	
Source of emission[2]	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Business activities	Tonnes	**612**	**2.97**	685	2.32

The lower total CO_2e emission in the Reporting Period than that in 2018 is mainly attributed to reduced consumption of fuel.

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.

[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, "2018 Sustainability Report" issued by China Light and Power Company Limited, and "Sustainability Report 2018" issued by the Hongkong Electric Company Limited.

ENVIRONMENT *(Continued)*

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.

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.

We create wastewater in our car-cleaning service. Instead of discharging wastewater directly to the sewage, we work with qualified recycling service suppliers who collects our wastewater on a regular basis. Staff members are also required to alert the locations to carry out the business activities that create wastewater. We have installed water-efficient spray gun to save water resources and reduce the amount of wastewater created.

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. Moreover, we do not encounter any difficulty in sourcing water. The following table summarizes our resources consumption during the Reporting Period:

		2019		2018	
Type of resource	**Unit**	**Amount**	**Intensity (per HKD1 million of revenue)**	Amount	Intensity (per HKD1 million of revenue)
Electricity	kWh	**973,985**	**4,724.636**	958,509	3,242.955
Petrol	Litre	**32,329**	**156.824**	45,747	154.777
Diesel	Litre	**30**	**0.143**	844	2.857
Water	m^3	**844**	**4.094**	1,189	4.023

ENVIRONMENT *(Continued)*

Resources Conservation *(Continued)*
We consumed slightly more electricity in the Reporting Period than the previous one because of more after-sales services. With our successful energy-saving measures and internal guidelines for our staff members, we achieved a decrease in consumption of petrol, diesel and water in the Reporting Period when compared to 2018.

Our ESG 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.

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.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Auto Italia Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 66 to 158, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Assessment of net realisable value ("NRV") of inventories	
We identified the assessment of NRV 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 economic environment, cars held by the Group may lose their value and may be required to be written down to their recoverable amounts. As at 31 December 2019, the carrying amount of inventories was HK$112,602,000 (net of accumulated allowance of inventories of HK$1,308,000) and no allowance of inventories was recognised in profit or loss during the year. Details of the Group's inventories are set out in note 20 to the consolidated financial statements.	Our procedures in relation to the assessment of NRV 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 NRV of inventories for those slow-moving inventories without 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, physical conditions, ageing analysis and subsequent sales of inventories.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill, property, plant and equipment and right-of-use assets	
We identified the impairment assessment of goodwill, property, plant and equipment and right-of-use assets as a key audit matter due to the involvement of significant management judgement and estimates in these assessments. With respect to the impairment assessment of goodwill, property, plant and equipment and right-of-use assets allocated to the relevant cash generating units or group of cash generating units which are engaged in the trading of cars and related accessories and provision of car repairing services, the management of the Company has prepared value in use calculations which are based on certain key inputs, including future growth and discount rates as set out in note 18 to the consolidated financial statements. As at 31 December 2019, the carrying amounts of goodwill, property, plant and equipment and right-of-use assets were HK$2,480,000, HK$12,135,000 and HK$39,309,000 respectively. No impairment loss was recognised in profit or loss during the year.	Our procedures in relation to the impairment of goodwill, property, plant and equipment and right-of-use assets included: • Obtaining an understanding of the key controls over the management's impairment assessment process; • Assessing the value in use calculations used by the management; • Comparing key assumptions (including discount rates and growth rates) used in the value in use calculations to industry and market data, historical performance and the future outlook; • Testing the inputs in the value in use calculations against source documents; and • Evaluating the sensitivity analysis on key assumptions, including future growth and discount rates adopted.

OTHER INFORMATION

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue from goods and services	5	**221,410**	325,333
Rental income		**1,976**	1,816
Interest income from loan receivables		**8,556**	10,946
Total revenue		**231,942**	338,095
Cost of sales and services		**(158,031)**	(243,857)
Gross profit		**73,911**	94,238
Other income	7	**24,238**	30,434
Other expense	8	**(5,515)**	–
Other gains and losses	9	**(1,905)**	2,897
Reversal of impairment losses (impairment losses) under expected credit loss ("**ECL**") model, net		**669**	(491)
Selling and distribution costs		**(75,449)**	(81,859)
Administrative expenses		**(49,904)**	(55,777)
Finance costs	10	**(3,678)**	(1,751)
Share of result of an associate		**14,087**	6,674
Loss before taxation		**(23,546)**	(5,635)
Taxation	11	**(566)**	(1,768)
Loss for the year	12	**(24,112)**	(7,403)
Loss per share	14		
– Basic		**(HK0.46 cent)**	(HK0.14 cent)
– Diluted		**(HK0.46 cent)**	(HK0.14 cent)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Loss for the year	**(24,112)**	(7,403)
Other comprehensive income (expense):		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations and the associate	**1,932**	(5,661)
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	**–**	(2,061)
Other comprehensive income (expense) for the year	**1,932**	(7,722)
Total comprehensive expense for the year	**(22,180)**	(15,125)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Investment properties	15	**56,500**	59,000
Property, plant and equipment	16	**12,135**	20,876
Right-of-use assets	17	**39,309**	–
Goodwill	18	**2,480**	2,480
Interest in an associate	19	**81,484**	65,082
Rental deposits	21	**6,208**	10,273
		198,116	157,711
Current assets			
Inventories	20	**112,602**	184,808
Trade and other receivables	21	**28,569**	36,675
Loan receivables	22	**70,055**	89,666
Pledged bank deposits	23	**44,019**	44,014
Bank balances and cash	23	**104,014**	121,212
		359,259	476,375
Current liabilities			
Trade and other payables	24	**31,350**	59,672
Contract liabilities	25	**19,496**	17,729
Tax payable		**2,853**	2,901
Bank and other borrowings	26	**5,323**	72,815
Lease liabilities	27	**23,078**	–
		82,100	153,117
Net current assets		**277,159**	323,258
Total assets less current liabilities		**475,275**	480,969

	NOTES	2019 HK$'000	2018 HK$'000
Capital and reserves			
Share capital	28	**104,391**	104,391
Reserves		**352,526**	373,603
Total equity		**456,917**	477,994
Non-current liabilities			
Bank and other borrowings	26	**–**	1,382
Deferred taxation	29	**1,593**	1,593
Lease liabilities	27	**16,765**	–
		18,358	2,975
		475,275	480,969

The consolidated financial statements on pages 66 to 158 were approved and authorised for issue by the board of directors on 25 March 2020 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 2019

	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$'000 (Note a)	Translation reserve HK$'000	Other reserve HK$'000 (Note b)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	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**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24,112)**	**(24,112)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,932**	**–**	**–**	**1,932**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**1,932**	**–**	**(24,112)**	**(22,180)**
Recognition of equity settled share-based payments	**–**	**–**	**–**	**1,103**	**–**	**–**	**–**	**–**	**1,103**
Transfer upon lapse of share options	**–**	**–**	**–**	**(76)**	**–**	**–**	**–**	**76**	**–**
At 31 December 2019	**104,391**	**249,345**	**2,151**	**17,200**	**19,246**	**(1,656)**	**166,431**	**(100,191)**	**456,917**

Notes:

(a) The property revaluation reserve represents the change in use of a property from owner-occupied property to investment property in previous years.

(b) The other reserve of the Group was transferred from the share premium pursuant to the capital re-organisation and the changes in the Group's ownership interest in its subsidiaries in previous years.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(23,546)**	(5,635)
Adjustments for:		
(Reversal of impairment losses) impairment losses on trade and other receivables and loan receivables, net	**(669)**	491
Allowance for inventories	**–**	218
Depreciation of property, plant and equipment	**11,345**	11,511
Depreciation of right-of-use assets	**34,403**	–
Interest income	**(476)**	(411)
Interest expenses	**3,678**	1,751
Loss (gain) on fair value change of investment properties	**2,500**	(3,700)
Gain on disposal of property, plant and equipment	**(393)**	(328)
Share-based payments	**1,103**	2,836
Share of result of an associate	**(14,087)**	(6,674)
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	**–**	(2,061)
Operating cash flows before movements in working capital	**13,858**	(2,002)
Decrease (increase) in inventories	**72,126**	(33,064)
Decrease in trade and other receivables	**11,105**	33,430
Decrease (increase) in loan receivables	**20,270**	(55,270)
Decrease in trade and other payables	**(28,369)**	(17,732)
Increase (decrease) in contract liabilities	**1,767**	(25,961)
Net cash from (used in) operations	**90,757**	(100,599)
Income tax paid	**(614)**	(5,072)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**90,143**	(105,671)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	**1,990**	4,538
Interest received	**476**	411
Purchase of property, plant and equipment	**(4,246)**	(11,868)
Placement of pledged bank deposits	**–**	(21,000)
Withdrawal of pledged bank deposits	**–**	22,963
NET CASH USED IN INVESTING ACTIVITIES	**(1,780)**	(4,956)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES		
Bank and other borrowings raised	**52,673**	121,558
Repayment of bank and other borrowings	**(121,547)**	(153,527)
Repayments for lease liabilities	**(33,062)**	–
Interest paid on lease liabilities	**(2,241)**	–
Interest paid on bank and other borrowings	**(1,437)**	(1,751)
NET CASH USED IN FINANCING ACTIVITIES	**(105,614)**	(33,720)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(17,251)**	(144,347)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**121,212**	266,181
EFFECT OF EXCHANGE RATE CHANGES	**53**	(622)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**104,014**	121,212

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, 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 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

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 position and performance 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)*

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

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)*

As a lessee *(Continued)*

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative to impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the Group is 4.25%.

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)*

As a lessee *(Continued)*

Lease liabilities as at 1 January 2019

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	72,850
Lease liabilities discounted at relevant incremental borrowing rates as at 1 January 2019	69,441
Less: Recognition exemption – short-term leases	(1,962)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	67,479
Analysed as:	
Current	33,522
Non-current	33,957
	67,479

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)*

As a lessee *(Continued)*

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the followings:

	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon date of initial application of HKFRS 16	67,479
Adjustments on rental deposits at 1 January 2019 (Note)	710
	68,189
By class:	
Land and buildings	68,189

Note: Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$710,000 was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. However, the adjustment to present value is insignificant at the date of initial application, 1 January 2019.

Based on the assessment of the directors of the Company, the application of HKFRS 16 as a lessor has no material impact to these consolidated financial statements as at 31 December 2019 and for the year ended 31 December 2019.

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)*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK$'000	HK$'000	HK$'000
Non-current assets			
Rental deposits	10,273	(710)	9,563
Right-of-use assets	–	68,189	68,189
Current liabilities			
Lease liabilities	–	33,522	33,522
Non-current liabilities			
Lease liabilities	–	33,957	33,957

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]
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[4]

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

2 Effective for business combinations 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

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

4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs 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)*

Amendments to HKFRS 3 "Definition of a Business"

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The Group will apply the amendments prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

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 judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

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.

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)*

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group for annual period beginning on 1 January 2020. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRS 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The consolidated financial statements have been prepared on the historical cost basis except for certain properties 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 are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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.

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 is not allocated to any asset, including goodwill, that 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

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 or 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.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)
A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)
Allocation of consideration to components of a contract
For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases
The Group applies the short-term lease recognition exemption to leases of car park spaces that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets
The cost of right-of-use asset includes the amount of the initial measurement of the lease liability and any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits
Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(Continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments represent fixed payments less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee (prior to 1 January 2019)

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.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment 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.

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.

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, adjusted to exclude any prepaid or accrued operating lease income.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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.

A CGU (or groups 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 groups 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 (or groups of CGUs) 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 groups 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve.

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 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 profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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 to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Borrowing costs

Borrowing costs not 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 recognised in profit or loss in the period in which they are incurred.

Short-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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits scheme

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 30.

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

Share options granted to consultants

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 Group 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 property, plant and equipment and right-of-use assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets with finite useful lives to determine whether there is any indication that these 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).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, corporates assets are allocated to individual CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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. 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 market place.

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 "Revenue from Contracts with Customers". Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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 is derived from the Group's ordinary course of business is presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets

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.

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

The Group performs impairment assessment under ECL model on financial assets (including rental deposits, trade and other receivables, loan receivables, pledged bank deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments 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 from contract with customers and lease 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 (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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(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. 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.

(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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

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.

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.

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

Financial liabilities including bank and other borrowings and trade and other payables 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.

Critical judgement in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to a showroom. The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

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

Critical judgement in applying accounting policies *(Continued)*

Determination on lease term of contracts with renewal options *(Continued)*

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by Group; and
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs).

As at 31 December 2019, the potential future lease payments relating to renewal option not included in leases liabilities (undiscounted) amounted to HK$3,270,000.

The followings 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.

Key sources of estimation uncertainty

Assessment of NRV of 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 with NRV lower than the cost of inventory. The management estimates the NRV for such inventories with reference to the latest price list, recent selling prices, physical conditions, ageing analysis and subsequent sales of inventories, at the end of the reporting period and makes allowance for slowing-moving inventory. In cases where the actual selling prices are less or more than expected, or changes in facts and circumstances which result in revision in estimated selling prices, additional or reversal of allowance may be required. At 31 December 2019, the carrying amount of inventories is HK$112,602,000 (2018: HK$184,808,000), net of accumulated allowance of HK$1,308,000 (2018: HK$1,308,000), whereas no allowance for inventories (2018: HK$218,000) recognised during the year ended 31 December 2019.

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of goodwill, property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections and the upcoming launches of new Maserati models, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of goodwill, right-of-use assets and property, plant and equipment are HK$2,480,000, HK$39,309,000 and HK$12,135,000 (2018: HK$2,480,000, nil and HK$20,876,000) respectively. There were no impairment losses of in respect of goodwill, right-of-use assets and property, plant and equipment that have been recognised for both years. Details of the impairment of goodwill, right-of-use assets and property, plant and equipment are disclosed in note 18.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2019 HK$'000	2018 HK$'000
Types of goods and services		
Trading of cars and related accessories	**134,352**	212,482
Provision of after sales and pre-delivery inspection services	**87,058**	112,851
Total	**221,410**	325,333
Geographical markets		
Hong Kong and Macau	**195,158**	282,804
Mainland China	**26,252**	42,529
Total	**221,410**	325,333
Timing of revenue recognition		
A point of time	**134,352**	212,482
Overtime	**87,058**	112,851
Total	**221,410**	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 obligations 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.

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 "Operating Segments" which are as follows:

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

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

(iii) Property investment.

Segment profit/loss represents the profit/loss earned by each segment without allocation of share of result of an associate, interest income from bank deposits/bank balances, certain unallocated corporate expenses and interests on bank and other borrowings. 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.

6. SEGMENT INFORMATION *(Continued)*

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 2019

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE				
Group's revenue	**221,410**	**8,556**	**1,976**	**231,942**
SEGMENT RESULTS				
Segment (loss) profit	**(36,378)**	**5,164**	**(688)**	**(31,902)**
Share of result of an associate				**14,087**
Interest income				**476**
Unallocated corporate expenses				**(4,770)**
Interests on bank and other borrowings				**(1,437)**
Loss before taxation				**(23,546)**

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)
Interests on bank and other borrowings				(1,751)
Loss before taxation				(5,635)

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 2019

	Cars HK$'000	Financial investments and services HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets				
Segment assets	197,876	72,950	56,595	327,421
Bank balances and cash				104,014
Interest in an associate				81,484
Pledged bank deposits				44,019
Unallocated corporate assets				437
Consolidated assets				557,375
Liabilities				
Segment liabilities	86,870	379	692	87,941
Bank and other borrowings				5,323
Deferred taxation				1,593
Tax payable				2,853
Unallocated corporate liabilities				2,748
Consolidated liabilities				100,458

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

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 2019

	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	4,246	–	–	–	4,246
Addition of right-of-use assets	5,544	–	–	–	5,544
Depreciation of property, plant and equipment	(11,345)	–	–	–	(11,345)
Depreciation of right-of-use assets	(34,403)	–	–	–	(34,403)
Gain on disposal of property, plant and equipment	393	–	–	–	393
Fair value loss on investment properties	–	–	(2,500)	–	(2,500)
Reversal of impairment losses, net					
– Trade receivables from contract with customers	4	–	–	–	4
– Loan receivables (including interest receivables)	–	665	–	–	665
Return of deposits received from a customer	(5,515)	–	–	–	(5,515)

6. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

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 from contract with customers	333	–	–	–	333
– Loan receivables (including interest receivables)	–	(824)	–	–	(824)

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 and Macau and Mainland China. The following table provides an analysis of the Group's revenue by location of customers, irrespective of the origin of the goods/services:

	2019 HK$'000	2018 HK$'000
Hong Kong and Macau	205,690	295,566
Mainland China	26,252	42,529
	231,942	338,095

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

	2019 HK$'000	2018 HK$'000
Hong Kong and Macau	108,058	84,889
Mainland China	2,366	7,740
United Kingdom	81,484	65,082
	191,908	157,711

7. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Other income includes:		
Commission income	**4,735**	5,547
Bank interest income	**476**	411

8. OTHER EXPENSE

	2019 HK$'000	2018 HK$'000
Return of deposits received from a customer (Note)	**5,515**	–

Note: In September 2019, the Company has entered into a settlement agreement with a customer that the Company would refund the sum of HK$5,515,000 being the deposits received and forfeited for the purchases of two cars in previous years. Such refund has been made in September 2019.

9. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Net foreign exchange gain (loss)	**202**	(3,192)
Gain on disposal of property, plant and equipment	**393**	328
Fair value (loss) gain on investment properties	**(2,500)**	3,700
Gain on liquidation of a subsidiary	**–**	2,061
	(1,905)	2,897

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interests on bank and other borrowings	**1,437**	1,751
Interests on lease liabilities	**2,241**	–
	3,678	1,751

11. TAXATION

	2019 HK$'000	2018 HK$'000
Current tax		
Hong Kong	**842**	1,445
Other jurisdictions	**–**	507
	842	1,952
(Over) underprovision in prior years		
Hong Kong	**(276)**	(233)
Other jurisdictions	**–**	49
	(276)	(184)
	566	1,768

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%. 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%.

11. 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 before taxation per the consolidated statement of profit or loss as follows:

	2019 **HK$'000**	2018 HK$'000
Loss before taxation	**(23,546)**	(5,635)
Tax at the domestic income tax rate of 16.5% (Note)	**(3,885)**	(930)
Tax effect of expenses not deductible for tax purpose	**696**	754
Tax effect of income not taxable for tax purpose	**(270)**	(823)
Overprovision in respect of prior years	**(276)**	(184)
Tax effect of tax losses not recognised	**5,723**	4,487
Tax effect of deductible temporary differences	**1,081**	81
Utilisation of tax losses previously not recognised	**(14)**	(522)
Effect of different tax rates of subsidiaries	**–**	171
Effect of share of result of an associate	**(2,324)**	(1,101)
Income tax at concessionary rate	**(165)**	(165)
Taxation for the year	**566**	1,768

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

12. LOSS FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,120**	1,200
Depreciation of property, plant and equipment	**11,345**	11,511
Depreciation of right-of-use assets	**34,403**	–
Staff costs:		
Directors' emoluments (excluding retirement benefits scheme contributions)	**6,971**	7,400
Salaries and allowances	**31,944**	39,948
Share-based payments	**891**	2,291
Retirement benefits scheme contributions	**1,767**	2,691
	41,573	52,330
Cost of inventories recognised as expense (including allowance for inventories of nil (2018: HK$218,000))	**152,641**	227,733
(Reversal of impairment losses) impairment losses on trade and other receivables and loan receivables, net	**(669)**	491
Operating lease payments in respect of rented properties	**–**	39,773

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

The emoluments paid or payable to each of five (2018: five) directors and the chief executive (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
2019						
Executive Directors						
Chong Tin Lung Benny	–	3,261	–	–	18	3,279
Lam Chi Yan	–	2,278	212	590	18	3,098
Independent Non-executive Directors ("INED"s)						
Santos Antonio Maria	210	–	–	–	–	210
Kong Kai Chuen Frankie	210	–	–	–	–	210
Lee Ben Tiong Leong	210	–	–	–	–	210
	630	5,539	212	590	36	7,007

13. 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
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)						
Santos Antonio Maria	180	–	–	–	–	180
Kong Kai Chuen Frankie	180	–	–	–	–	180
Lee Ben Tiong Leong	180	–	–	–	–	180
	540	5,287	545	1,028	36	7,436

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

13. 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 (2018: two) were Directors whose emoluments are included in the disclosures above. The emoluments of the remaining three (2018: three) individuals were as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries and other benefits	**3,737**	4,230
Performance related incentive payments	**344**	427
Share-based payments	**212**	545
Retirement benefits scheme contributions	**52**	54
	4,345	5,256

Their emoluments were within the following bands:

	2019 **Number of employees**	2018 Number of employees
Nil to HK$999,999	**1**	–
HK$1,000,000 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**2**	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.

14. LOSS PER SHARE

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

	2019	2018
	HK$'000	HK$'000
Loss for the year for the purpose of basic and diluted loss per share	**(24,112)**	(7,403)

	2019	2018
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**5,219,541,190**	5,219,541,190

For the year ended 31 December 2019 and 2018, the computation of diluted loss per share does not assume the exercise of the Company's share options since the exercise prices of the share options outstanding were higher than average market price of the shares for the year ended 31 December 2019 and 2018.

15. INVESTMENT PROPERTIES

	HK$'000
At 1 January 2018	55,300
Fair value gain	3,700
At 31 December 2018	59,000
Fair value loss	(2,500)
At 31 December 2019	56,500

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.

The fair value of the Group's investment properties as at 31 December 2019 and 2018 has been arrived at on the basis of a valuation carried out by Roma Appraisal Limited, independent qualified professional valuers not connected to the Group. The fair value was determined based on direct comparison method making reference to comparable sales transactions as available in the relevant markets.

In determining the fair value of the properties, the qualified external valuer determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuer to perform the valuation. The senior finance manager of the Company work closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

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

The fair value of the investment properties as at 31 December 2019 and 2018 was under Level 3 of fair value hierarchy based on the market approach. The key input was the discounting adjustment which is based on the property's location, age and size to the recent transaction price of 6.02% (2018: 7.25%). A decrease in this adjustment would result in an increase in fair value measurement of the investment properties and vice versa. There were no transfer 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 33.

16. 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 2018	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	(11)	(339)	(51)	(4,546)	(4,947)
At 31 December 2018	35,323	10,656	7,907	18,037	71,923
Exchange adjustments	(129)	(95)	(28)	(5)	(257)
Additions	2,601	519	696	430	4,246
Disposals	–	–	–	(2,723)	(2,723)
At 31 December 2019	37,795	11,080	8,575	15,739	73,189
Depreciation					
At 1 January 2018	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	(4)	(194)	(32)	(507)	(737)
At 31 December 2018	29,252	6,852	7,444	7,499	51,047
Exchange adjustments	(125)	(58)	(25)	(4)	(212)
Provided for the year	5,946	1,329	598	3,472	11,345
Eliminated on disposals	–	–	–	(1,126)	(1,126)
At 31 December 2019	35,073	8,123	8,017	9,841	61,054
Carrying values					
At 31 December 2019	2,722	2,957	558	5,898	12,135
At 31 December 2018	6,071	3,804	463	10,538	20,876

16. 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%

Details of impairment assessment are set out in note 18.

17. RIGHT-OF-USE ASSETS

	Land and buildings HK$'000
As at 1 January 2019	
Carrying amount	68,189
As at 31 December 2019	
Carrying amount	39,309
For the year ended 31 December 2019	
Depreciation charge	34,403
Expense relating to short term leases	2,323
Total cash outflow for leases	37,626
Addition due to lease modification (Note)	5,446

Note: During the year ended 31 December 2019, the Group renewed the lease agreement of a showroom by entering into new contract, which constituted a non-cash transaction. The renewal of lease agreement is accounted for as a lease modification.

For both years, the Group leases various offices and showrooms for its operations. Lease contracts are entered into for fixed term of one to five years. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

17. RIGHT-OF-USE ASSETS *(Continued)*

The Group has extension options in a lease for a showroom. This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held is exercisable only by the Group and not by the respective lessors.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The potential exposures to these future lease payments for extension options in which the Group is not reasonably certain to exercise. The lease liabilities recognised for the showroom as at 31 December 2019 is HK$6,575,000 and the potential future lease payments not included in lease liabilities (undiscounted) is HK$3,270,000.

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

The Group regularly entered into short-term leases for car park spaces. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term leases expenses disclosed above.

Details of impairment assessment are set out in note 18.

18. GOODWILL

	HK$'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	2,788
Impairment	
At 1 January 2018, 31 December 2018 and 31 December 2019	(308)
Carrying values	
At 31 December 2019 and 31 December 2018	2,480

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

For the purposes of impairment testing of goodwill, goodwill is allocated to subsidiaries engaged in trading of cars and related accessories and provision of car repairing services in Hong Kong and Mainland China (collectively referred to as "**sales of cars**") represents a group of CGUs. For the impairment testing of property, plant and equipment and right-of-use assets, the Group considered each subsidiary engaged in sales of cars in Hong Kong, Macau and Mainland China as a separate CGU.

18. GOODWILL *(Continued)*

The basis of the recoverable amount and its major underlying assumptions of the CGUs and the group of CGUs engaged in the sales of cars are summarised below:

At 31 December 2019 and 2018, the recoverable amount of the CGUs and the group of CGUs engaged in the sales of cars has been determined based on value in use calculations. 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% (2018: 17%) were used. The cash flows of the CGUs and the group of CGUs engaged in the sales of cars beyond the 5-year period of the financial budgets are extrapolated using a nil (2018: nil) growth rate. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the past performance of the CGUs and the group of CGUs 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 CGUs and the group of CGUs 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.

19. INTEREST IN AN ASSOCIATE

	2019 **HK$'000**	2018 HK$'000
Cost of investment in an associate	**55,053**	55,053
Share of post-acquisition profits	**25,583**	11,496
Exchange adjustments	**848**	(1,467)
	81,484	65,082

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

Name of entity	Country of incorporation	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			2019	2018	**2019**	2018	
Dakota RE II Limited	British Virgin Islands ("BVI")	United Kingdom	**27.49%**	27.49%	**27.49%**	27.49%	Investment holding

Dakota RE II Limited, through its directly owned subsidiary, is holding shares in Dakota Capella LLP which holds an office building located in the United Kingdom earning rental income.

19. INTEREST IN AN ASSOCIATE *(Continued)*

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.

	2019 **HK$'000**	2018 HK$'000
Current assets	**40,875**	27,810
Non-current assets	**544,431**	488,919
Current liabilities	**(9,570)**	(8,533)
Non-current liabilities	**(268,405)**	(263,811)

	2019 **HK$'000**	2018 HK$'000
Profit and total comprehensive income for the year	**54,220**	25,137

	2019 **HK$'000**	2018 HK$'000
Net assets of Dakota RE II Limited	**307,331**	244,385
Non-controlling interests of Dakota RE II Limited's subsidiaries	**(10,920)**	(7,637)
	296,411	236,748
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%
	81,484	65,082

20. INVENTORIES

	2019 HK$'000	2018 HK$'000
Finished goods	**102,095**	174,793
Spare parts	**10,507**	10,015
	112,602	184,808

Included in the above figures are finished goods of nil (2018: HK$1,461,000) which have been pledged as security for bank borrowings (note 33).

21. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables from contract with customers	**15,225**	29,706
Less: Allowance for ECL	**(55)**	(59)
	15,170	29,647
Utility and rental deposits	**10,680**	11,494
Prepayments and other receivables	**6,132**	4,663
Interest receivables	**2,795**	1,144
	34,777	46,948
Less: Amount due more than one year shown under non-current assets	**(6,208)**	(10,273)
Amount shown under current assets	**28,569**	36,675

Rental deposits paid were adjusted upon the initial application of HKFRS 16. Details of adjustments are set out in note 2.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables from contract with customers

As at 1 January 2018, trade receivables from contracts with customers amounted to HK$56,302,000.

The Group allows its customers a credit period from 0 to 90 days. The following is an aged analysis of trade receivables from contract with customers net of allowance for ECL presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2019	2018
	HK$'000	HK$'000
Within 30 days	**5,223**	17,740
31 to 60 days	**1,986**	1,558
61 to 90 days	**1,527**	4,179
91 days to 1 year	**3,747**	6,123
Over 1 year	**2,687**	47
	15,170	29,647

The Group has applied simplified approach on non-credit impaired trade receivables from contracts with customers to provide for ECL. In determining the recoverability of a trade receivable from contract with customers, the Group considers changes in the credit quality of the trade receivable from contract with customers from the date of credit initially granted up to the end of the reporting period.

At 31 December 2019, included in the Group's trade receivables from contract with customers balance are debtors with aggregate carrying amount of HK$6,434,000 (2018: HK$6,170,000) which are past due as at the reporting date, which have been past due 90 days or more and are not considered as in default in view of the credit qualities of debtors, management's historical experience on the settlement patterns and on-going business relationships with the Group.

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 are set out in note 37.

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

	2019 **HK$'000**	2018 HK$'000
United States Dollars ("**USD**")	**4,362**	2,265
Renminbi ("**RMB**")	**13,927**	25,890
Euro ("**EUR**")	**459**	129
Macanese Pataca ("**MOP**")	**424**	–
Great British Pound ("**GBP**")	**–**	393

22. LOAN RECEIVABLES

	2019 **HK$'000**	2018 HK$'000
Fixed-rate loans	**70,220**	90,490
Less: Allowance for ECL	**(165)**	(824)
	70,055	89,666

As at 31 December 2019, loan receivable amounted to HK$19,000,000 (2018: HK$20,000,000) with original maturity in July 2018, further extended to July 2020 (2018: July 2019), carrying interest rate of 8% per annum was secured by listed shares in Hong Kong with fair values of HK$180,296,000 (2018: HK$56,000,000).

22. LOAN RECEIVABLES *(Continued)*

Loan receivable amounted to HK$15,220,000 (2018: HK$15,220,000) with original maturity in August 2018, further extended to August 2020 (2018: 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$34,391,000 (31 December 2018: HK$31,898,000). The fair value was determined based on direct comparison method making reference to comparable sales transactions as available in relevant markets.

Loan receivable amounted to HK$16,000,000 (2018: HK$16,000,000) with original maturity in December 2019, further extended to June 2020, carrying interest rate of 8% per annum was secured by listed shares in Hong Kong with fair values of HK$28,056,000 (2018: HK$42,384,000).

Loan receivable amounted to HK$10,000,000 (31 December 2018: HK$10,000,000) with maturity in March 2019, carrying interest rate of 30% per annum was secured by a yacht at a value higher than the carrying amount of the loan.

Furthermore, loan receivable amounted to HK$10,000,000 with interest rate 7.5% per annum and maturity date in May 2020 was lent out to an independent third party during the year ended 31 December 2019. The loan receivable was secured by listed shares in Hong Kong with fair values of HK$19,664,000.

Details of impairment assessment of loan receivables for the year ended 31 December 2019 are set out in note 37.

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

	2019 **HK$'000**	2018 HK$'000
USD	–	19,798
GBP	–	8,813

23. 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 (2018: 0.01% to 1.00% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$44,019,000 (2018: HK$44,014,000) 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 0.5% per annum (2018: 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:

	2019	2018
	HK$'000	HK$'000
USD	**5,622**	5,129
RMB	**10,134**	7,661
EUR	**31**	512
MOP	**530**	–
GBP	**11,583**	2

24. 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 payables presented based on invoice date at the end of the reporting period.

	2019	2018
	HK$'000	HK$'000
Within 30 days	**5,611**	24,029
31 to 60 days	**376**	4,819
61 to 90 days	**15**	745
91 days to 1 year	**101**	631
Over 1 year	**764**	768
Trade payables	**6,867**	30,992
Advance payments from customers	**2,561**	3,378
Accrued charges	**15,027**	19,972
Other payables	**6,895**	5,330
	31,350	59,672

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

	2019	2018
	HK$'000	HK$'000
USD	**5,682**	23,019
RMB	**1,607**	2,614
EUR	**825**	5,840
MOP	**32**	–
GBP	**1**	1

25. CONTRACT LIABILITIES

	2019 **HK$'000**	2018 HK$'000
Receipt in advances for sales of cars	**19,496**	17,729

As at 1 January 2018, contract liabilities amounted to HK$43,690,000.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Cars HK$'000
For the year ended 31 December 2019	
Revenue recognised that was included in the contract liability balance at the beginning of the year	9,483
For the year ended 31 December 2018	
Revenue recognised that was included in the contract liability balance at the beginning of the year	35,873

26. BANK AND OTHER BORROWINGS

	2019 **HK$'000**	2018 HK$'000
Bank borrowings	**1,379**	3,162
Trust receipt loans	**767**	44,875
Other borrowings from restricted licensed banks	**–**	1,087
Other borrowings from a financial institution	**3,177**	25,073
	5,323	74,197
Secured	**5,323**	74,197
Carrying amount repayable:		
On demand or within one year	**5,323**	72,815
More than one year, but not exceeding two years	**–**	1,382
	5,323	74,197
Less: Amounts due within one year shown under current liabilities	**(5,323)**	(72,815)
Amounts shown under non-current liabilities	**–**	1,382

26. BANK AND OTHER BORROWINGS *(Continued)*

As at 31 December 2019, included in the carrying amount repayable on demand or within one year is a balance of HK$5,323,000 (2018: HK$71,035,000) that contains a repayable on demand clause.

As at 31 December 2019, the bank borrowings, trust receipt loans and other borrowings from restricted licensed banks are variable-rate borrowings which bear average effective interest rate at 4.44% per annum (2018: 5.27% per annum).

The other borrowings from a financial institution of HK$3,177,000 at 31 December 2019 (2018: HK$25,073,000) are variable-rate borrowings with maturity from January 2020 to December 2020 (2018: January 2019 to December 2019), which bear effective interest rate at 4.5% per annum (2018: 4.25% per annum).

Details of the pledge of assets to secure the Group's banking facilities were set out in note 33.

27. LEASE LIABILITIES

	2019 HK$'000
Lease liabilities payable:	
Within one year	23,078
Within a period of more than one year but not more than two years	16,295
Within a period of more than two years but not more than five years	470
	39,843
Less: Amounts due for settlement with 12 months shown under current liabilities	(23,078)
Amounts due for settlement after 12 months shown under non-current liabilities	16,765

The weighted average incremental borrowing rate applied by the Group as at 31 December 2019 is 4.38%.

28. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.02 each:		
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	17,500,000,000	350,000
Issued and fully paid:		
At 1 January 2018, 31 December, 2018 and 31 December 2019	5,219,541,190	104,391

29. DEFERRED TAXATION

As at 31 December 2019, deferred tax liabilities of HK$1,593,000 (2018: HK$1,593,000) represented the temporary differences associated with undistributed earnings of a PRC subsidiary. No movement is noted during both years.

During the year ended 31 December 2018, unused estimated tax losses of HK$12,814,000 was lapsed due to deregistration of a subsidiary. At 31 December 2019, the Group had HK$198,612,000 (2018: HK$164,014,000) unused estimated tax losses of available for offset against future profits which is subject to agreement with the relevant tax authorities. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

At the end of the reporting period, the Group has deductible temporary differences of HK$6,549,000 (2018: HK$491,000) mainly relating to accelerated accounting depreciation and allowance for inventories. No deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

30. 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.

30. 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 of Directors (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, (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 2019, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Scheme was 215,922,200 (2018: 216,764,000) representing 4.14% (2018: 4.15%) of the shares of the Company in issue at that date.

30. SHARE OPTION SCHEMES *(Continued)*

The following table details and movements of the Company's share options granted under the 2012 Scheme held by employees (including directors) during the two years ended 31 December 2019 and 2018:

Name or category of participants	Date of grant	Exercise price HK$ (Note 1)	Exercisable period	As at 1 January 2019	Granted during the year	Forfeited/ lapsed during the year (Note 4)	As at 31 December 2019	Exercisable at 31 December 2019
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	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	18,700,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	18,700,000	–	–	18,700,000	13,090,000
Dr. Santos Antonio Maria	16.10.2014	0.1840	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	0.1840	16.4.2015 to 15.4.2020 (Note 3)	1,500,000	–	–	1,500,000	1,500,000
Employees in aggregate	16.10.2014	0.1840	16.10.2015 to 15.10.2020 (Note 2)	5,513,000	–	(841,800)	4,671,200	4,671,200
	20.4.2015	0.3510	20.4.2016 to 19.4.2021 (Note 2)	260,000	–	–	260,000	260,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	18,700,000	–	–	18,700,000	13,090,000
Other eligible participants	16.10.2014	0.1840	16.10.2015 to 15.10.2020 (Note 2)	40,000,000	–	–	40,000,000	40,000,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	60,000,000	–	–	60,000,000	42,000,000
Total				216,764,000	–	(841,800)	215,922,200	
Weighted average exercise price				0.143	–	0.184	0.143	

30. SHARE OPTION SCHEMES *(Continued)*

Name or category of participants	Date of grant	Exercise price HK$ (Note 1)	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	0.1840	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	0.1840	16.10.2015 to 15.10.2020 (Note 2)	18,700,000	–	–	18,700,000	18,700,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	18,700,000	–	–	18,700,000	7,480,000
Dr. Santos Antonio Maria	16.10.2014	0.1840	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	0.1840	16.4.2015 to 15.4.2020 (Note 3)	1,500,000	–	–	1,500,000	1,500,000
Employees in aggregate	16.10.2014	0.1840	16.10.2015 to 15.10.2020 (Note 2)	7,216,200	–	(1,703,200)	5,513,000	5,513,000
	20.4.2015	0.3510	20.4.2016 to 19.4.2021 (Note 2)	260,000	–	–	260,000	260,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	18,700,000	–	–	18,700,000	7,480,000
Other eligible participants	16.10.2014	0.1840	16.10.2015 to 15.10.2020 (Note 2)	40,000,000	–	–	40,000,000	40,000,000
	15.6.2017	0.0932	15.6.2018 to 14.6.2023 (Note 2)	60,000,000	–	–	60,000,000	24,000,000
Total				218,467,200	–	(1,703,200)	216,764,000	
Weighted average exercise price				0.144	–	0.184	0.143	

30. 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 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. 26,180,000 (2018: 14,960,000) share options were exercisable as at 31 December 2019.

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. 42,000,000 (2018: 24,000,000) share options were exercisable as at 31 December 2019.

The fair value of the share options were determined using a Black-Scholes option pricing model. 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.

During the year ended 31 December 2019, the Group recognised the total expense of HK$1,103,000 (2018: HK$2,836,000) in administrative expenses for year ended 31 December 2019 in relation to share options granted by the Company.

31. 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$1,767,000 (2018: HK$2,691,000) recognised to profit or loss represents contributions payable to these schemes by the Group during the year.

32. OPERATING LEASE

The Group as lessees

At 31 December 2018, 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
Within one year	37,701
In the second to fifth year inclusive	35,149
	72,850

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

32. OPERATING LEASE *(Continued)*

The Group as lessor

Property rental income earned during the year was HK$1,976,000 (2018: HK$1,816,000). All of the properties held have committed tenants for the next three years.

Minimum lease payments receivable on leases are as follows:

	2019 **HK$'000**
Within one year	**2,091**
In the second year	**871**
	2,962

The Group had contracted with tenants for the following future minimum lease payments:

	2018 HK$'000
Within one year	801
In the second to fifth year inclusive	–
	801

33. PLEDGE OF ASSETS

	2019 **HK$'000**	2018 HK$'000
Inventories	**–**	1,461
Pledged bank deposits	**44,019**	44,014
Investment properties	**56,500**	59,000
	100,519	104,475

34. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2019 HK$'000	2018 HK$'000
Fees	630	540
Salaries and other benefits	7,238	6,919
Performance related incentive payments	729	1,162
Share-based payments	424	1,089
Retirement benefit scheme contributions	54	54
	9,075	9,764

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

35. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment authorized but not contracted for in the consolidated financial statements	670	350

36. DIVIDEND

No dividend was paid or proposed during year ended 31 December 2019 (2018: Nil), nor has any dividend been proposed since the end of the reporting period (2018: Nil).

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Amortised costs	**251,153**	288,451
Financial liabilities		
Amortised costs	**21,646**	113,897

Financial risk management objectives and policies

The Group's financial instruments include rental deposits, trade and other receivables, loan receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank and other borrowings and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate 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.

37. 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	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**9,984**	27,192	**5,682**	23,019
RMB	**24,061**	33,551	**1,607**	2,614
EUR	**490**	641	**825**	5,840
MOP	**954**	–	**32**	–
GBP	**11,583**	9,208	**1**	1

Sensitivity analysis

As HK$ is pegged 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% (2018: 5%) increase and decrease in HK$ against RMB, EUR, GBP and MOP. 5% (2018: 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.

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

Sensitivity analysis *(Continued)*

A positive (negative) number below indicates an increase (a decrease) in post-tax loss for the year where HK$ strengthen 5% (2018: 5%) against RMB, EUR, GBP and MOP. For a 5% (2018: 5%) weakening of HK$ against RMB, EUR, GBP and MOP, there would be an equal and opposite impact on the post-tax loss for the year as set out below:

	RMB impact		EUR impact		GBP impact		MOP impact	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Increase in post-tax loss	**937**	1,292	**(14)**	(217)	**484**	384	**38**	–

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period end exposure does not reflect the exposure during the reporting period.

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate loan receivables, pledged bank deposits, certain other borrowings and lease liabilities. The Group's cash flow interest rate risk relates primarily to variable-rate bank balances and certain bank and other borrowings (see notes 23 and 26 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 cash flow interest rate risks 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 decreases/increases by the aforesaid basis point, and all other variables were held constant, the Group's pre-tax loss for the year ended 31 December 2019 would increase/decrease by approximately HK$148,000 (2018: HK$165,000). 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 loss for the year ended 31 December 2019 would decrease/increase by approximately HK$22,000 (2018: HK$310,000).

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis *(Continued)*

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.

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade and other receivables, loan receivables, bank balances and pledged bank deposits for year ended 31 December 2019 and 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 by properties, listed securities and yacht.

Trade receivables from contract with customers

Before accepting any new customer, the Group performs internal credit risk assessment procedures to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 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 debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. To measure the ECL, trade receivables from contract with customers are assessed individually. The Group has concentration of credit risk as 63% (2018: 60%) and 93% (2018: 96%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Other receivables

Regarding other receivables, the ECL on these assets are assessed individually for debtors on the recoverability based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables. The Group performs impairment assessment under 12m ECL model. As at 31 December 2019, the Group assessed the ECL for other receivables was insignificant as it is considered that the loss given default is minimal after assessing the counterparties' financial background and creditability. Thus no loss allowance was recognised.

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Loan receivables

Before accepting any new customer, the Group performs internal credit risk assessment procedures to assess the potential customer's credit quality and defines loan amounts and loan interest rates by customer. Loan amounts granted to customers and quality of the collaterals are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The directors of the Company estimate the estimated loss rates of loan receivables based on the financial background, current credit worthiness and past payments of the debtors as well as the fair value of the collaterals pledged by the customers to the loan receivables. Based on assessment by the directors of the Company, the loss given default is low in view of the estimated realised amount of ultimate disposal of the collaterals and the ECL for loan receivables are assessed individually. During the year ended 31 December 2019, a reversal of impairment allowance for loan receivables (including interest receivables) amounting to HK$669,000 was recognised in profit or loss. At 31 December 2019, the accumulated impairment allowance for loan receivables (including interest receivables) amounted to HK$169,000.

The Group has significant concentration of credit risk on loan receivables as at 31 December 2019 and 2018. In order to minimise credit risk, the management closely monitored the settlement record of the individual loan and interest and assessed impairment with reference to fair value of the collateralised listed securities, residential properties and a yacht 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.

Pledged bank deposits and bank balances

Credit risk on pledged bank deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for pledged bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on pledged bank deposits and bank balances is considered to be insignificant.

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Category	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired

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

	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	2019 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000
Financial assets at amortised cost						
Trade receivables from contract with customer	21	N/A	Low risk	Lifetime ECL (not credit impaired)	**2,172**	6,974
		N/A	Watch list	Lifetime ECL (not credit impaired)	**13,053**	22,732
Loan receivables (including interest receivables)	22	N/A	Low risk	12m ECL	**61,029**	91,644
		N/A	Doubtful	Lifetime ECL (not credit impaired)	**11,990**	–
Other receivables	21	N/A	(note 1)	12m ECL	**15,100**	2,768
Pledge bank deposits	23	A3 (note 2)	N/A	12m ECL	**44,019**	44,014
Bank balances	23	A1-A3 (note 2)	N/A	12m ECL	**104,014**	121,212

Note:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition for other receivables. The entire balance for other receivable is not past due or has no fixed repayment terms.

2. External credit ratings are sourced from international credit-rating agencies.

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table shows the movement in 12m ECL and lifetime ECL that has been recognised for trade receivables from contract with customers and loan receivables (including interest receivables).

	Trade receivables from contract with customers HK$'000	Loan receivables (including interest receivables) HK$'000	Total HK$'000
As at 1 January 2018	392	10	402
Changes due to financial instruments recognised as at 1 January 2018:			
– Impairment loss reversed	(392)	–	(392)
New financial assets originated	59	824	883
As at 31 December 2018	**59**	**834**	**893**
Changes due to financial instruments recognised as at 1 January 2019:			
– Impairment loss reversed	**(21)**	**(669)**	**(690)**
New financial assets originated	**17**	**4**	**21**
As at 31 December 2019	**55**	**169**	**224**

During the year ended 31 December 2019, the Group reversed HK$21,000 (2018: HK$392,000) impairment allowance for trade receivables due to the settlements from trade debtors and reversed HK$669,000 (2018: Nil) impairment allowance for loan receivables due to the settlements from customers.

37. 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 financial liabilities and lease liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities and lease 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	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2019					
Trade and other payables	**–**	**16,323**	**–**	**16,323**	**16,323**
Bank and other borrowings	**4.48**	**5,391**	**–**	**5,391**	**5,323**
Lease liabilities	**4.38**	**24,279**	**17,140**	**41,419**	**39,843**
		45,993	**17,140**	**63,133**	**61,489**
As at 31 December 2018					
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

The amounts included above for variable interest rate instruments for 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.

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

As at 31 December 2019, the aggregate undiscounted principal amount of bank and other borrowings with repayment on demand clause with carrying amount of HK$3,944,000 (2018: HK$71,035,000) is 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	Total undiscounted cash flows	Carrying amount at the end of the reporting period
	%	HK$'000	HK$'000	HK$'000
Bank and other borrowings				
As at 31 December 2019	**4.55**	**3,987**	**3,987**	**3,944**
As at 31 December 2018	5.17	71,899	71,899	71,035

38. 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 and lease liabilities, 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.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details change 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 flow will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

	Bank and other borrowings Note 26 HK$'000	Lease liabilities Note 27 HK$'000	Total HK$'000
At 1 January 2018	106,166	–	106,166
Financing cash flows	(33,720)	–	(33,720)
Interest expenses	1,751	–	1,751
At 31 December 2018	**74,197**	**–**	**74,197**
Adjustment upon application of HKFRS 16	**–**	**67,479**	**67,479**
Financing cash flows	**(70,311)**	**(35,303)**	**(105,614)**
Interest expenses	**1,437**	**2,241**	**3,678**
Addition due to lease modification (Note 17)	**–**	**5,446**	**5,446**
Exchange adjustment	**–**	**(20)**	**(20)**
At 31 December 2019	**5,323**	**39,843**	**45,166**

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2019 and 2018 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 2019 %	2018 %	Principal activities
Corich Enterprises Inc.	BVI	Ordinary	USD100	**100#**	100#	Investment holding
Home Crown Enterprises Ltd.	BVI	Ordinary	USD1	**100#**	100#	Investment holding
Smart Apex Holdings Limited	BVI	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
AI Motor (Macau) Limited	Macau	Ordinary	MOP100,000	**100#**	100#	Trading of cars and related accessories and provision of car repairing services
Italian Motors (Sales & Service) Limited	Hong Kong	Ordinary	HK$600,000	**100#**	100#	Investment holding
Rise Champ Limited	Hong Kong	Ordinary	HK$1	**100#**	100#	Property holding
Technorient Limited	Hong Kong	Ordinary	HK$46,168,700	**100#**	100#	Investment holding

40. 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 2019 %	2018 %	Principal activities
勵快駿投資咨詢(上海)有限公司##	PRC	N/A	HK$1,000,000	**100#**	100#	Provision of pre-delivery inspection consultancy services and warranting services of Ferrari and Maserati cars in Shanghai
Taine Holdings Limited	BVI	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	BVI	Ordinary	USD1	**100**	100	Investment holding
Elite Jumbo Limited	BVI	Ordinary	USD1	**100#**	100#	Investment holding
Zone Key Limited	BVI	Ordinary	USD1	**100**	–	Investment holding
Colour Path Global Limited	BVI	Ordinary	USD1	**100#**	–	Investment holding
Rainbow Surplus Investments Limited	BVI	Ordinary	USD1	**100#**	–	Investment holding

\# These entities are indirectly held by the Company.

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

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.

41. EVENTS AFTER THE REPORTING PERIOD

(1) The outbreak of a respiratory illness caused by Novel Coronavirus, or known as the COVID-19, in Mainland China, Hong Kong, Europe and various countries around the globe, has affected many businesses to different extent. Although the majority of the Group's businesses are located in Hong Kong, much of the Group's supply are from overseas and certain end customers maybe from Mainland China or overseas, and the Group's associate mainly holds investment properties in the United Kingdom. Since different measures including travel restrictions and home quarantine requirements were taken by various government and authorities all over the world, it may impact consumers' spending pattern and the Group's business directly or indirectly. In addition, the outbreak of COVID-19 may affect the recoverability of Group's trade receivables, loan receivables and other financial assets that are subject to ECL assessment, the fair value of the investment properties held by the Group and its associate, and the carrying amounts of the Group's property, plant and equipment, right-of-use assets and inventories. Given the widespread nature of the outbreak and the unpredictability of future development of COVID-19, the impacts to the Group cannot be reliably quantified or estimated at the date of this report. The Company continues to closely monitor the situation. The actual financial effects, if any, will be reflected in the Group's future financial statements.

(2) On 29 January 2020, the Company entered into a subscription agreement to acquire 11.82% of the shares of the target company, a limited liability company incorporated in BVI, at a consideration of USD32,000,000 (equivalent to approximately HK$248,800,000) by way of issurance of preference shares. The target company is carrying on biologics contract development and manufacturing service business. The transaction was completed in February 2020. Further details of this transaction are set out in the Company's announcement dated 29 January 2020.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**23,394**	23,394
Amounts due from subsidiaries	**195,063**	55,063
	218,457	78,457
Current assets		
Other receivables	**449**	416
Amounts due from subsidiaries	**132,434**	237,383
Bank balances and cash	**899**	39,616
	133,782	277,415
Total assets	**352,239**	355,872
Current liabilities		
Other payables	**2,748**	3,034
Amounts due to subsidiaries	**33,451**	33,430
Total liabilities	**36,199**	36,464
Total assets less current liabilities	**316,040**	319,408
Capital and reserves		
Share capital (note 28)	**104,391**	104,391
Reserves (Note)	**211,649**	215,017
Total equity	**316,040**	319,408

42. 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 2018	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**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(4,471)**	**(4,471)**
Recognition of equity settled share-based payments	**–**	**–**	**1,103**	**–**	**–**	**1,103**
Transfer upon lapse of share options	**–**	**–**	**(76)**	**–**	**76**	**–**
At 31 December 2019	**249,345**	**2,151**	**17,200**	**46,396**	**(103,443)**	**211,649**

FIVE-YEAR FINANCIAL SUMMARY

	2019 **HK$'000**	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Results					
Revenue	**231,942**	338,095	792,873	742,484	973,140
(Loss) profit for the year	**(24,112)**	(7,403)	85,872	(12,375)	27,756
Attributable to:					
Owners of the Company	**(24,112)**	(7,403)	85,872	(12,375)	27,756
	(24,112)	(7,403)	85,872	(12,375)	27,756
Assets and liabilities					
Total assets	**557,375**	634,086	725,743	829,250	775,878
Total liabilities	**(100,458)**	(156,092)	(235,058)	(430,494)	(373,578)
Net assets	**456,917**	477,994	490,685	398,756	402,300
Equity attributable to owners of the Company	**456,917**	477,994	490,685	398,756	402,300
Total equity	**456,917**	477,944	490,685	398,756	402,300

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, 27 May 2020 at 2:00 p.m. or any adjournment thereof;
"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;
"BVI"	the British Virgin Islands;
"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;
"CBL"	Chime Biologics Limited, a company incorporated in the BVI with limited liability and which is an associate company of the Company;
"CDMO"	the contract development and manufacturing organisation;
"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;
"COVID-19"	novel coronavirus epidemia;
"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;
"HNWs"	high net worth individuals;
"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;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented or otherwise modified from time to time;
"Macau"	the Macau Special Administrative Region of the PRC;
"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;
"MOP"	Macau Pataca, the lawful currency of Macau;
"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, Macau 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 2019;
"Reporting Period"	the reporting period for the year ended 31 December 2019;
"RMB"	Renminbi, the lawful currency of the PRC;
"RMTF"	the risk management taskforce;
"sales of cars"	referred to note 18 of the consolidated financial statement;
"SAR"	Special Administrative Region of the PRC;
"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, the company secretarial services provider;
"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; and
"%"	per cent.