

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**AUTO ITALIA HOLDINGS LIMITED**

**意達利控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 720)**

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2013**

The directors of Auto Italia Holdings Limited (the “Company”) (the “Directors”) are pleased to announce that the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended June 30, 2013 were as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2013

|  | Notes | 2013<br>HK\$'000<br>(unaudited) | 2012<br>HK\$'000<br>(unaudited<br>and restated) |
|--|-------|---------------------------------|---|
| <b>Revenue</b>   | 3     | <b>739,819</b>                  | 839,498   |
| Cost of sales  |       | <u>(578,843)</u>                | <u>(678,726)</u>                                |
| <b>Gross profit</b>  |       | <b>160,976</b>                  | 160,772   |
| Other income and expenses  |       | <b>9,190</b>                    | 10,438  |
| Other gains and losses   |       | <b>(313)</b>                    | 8,764   |
| Selling and distribution costs   |       | <b>(87,931)</b>                 | (92,806)  |
| Administrative expenses  |       | <b>(65,646)</b>                 | (65,746)  |
| Finance costs  |       | <u><b>(8,613)</b></u>           | <u>(9,933)</u>                                  |
| <b>Profit before taxation</b>  |       | <b>7,663</b>                    | 11,489  |
| Taxation   | 4     | <u><b>(5,726)</b></u>           | <u>(5,126)</u>                                  |
| <b>Profit for the period</b>   | 5     | <u><b>1,937</b></u>             | <u>6,363</u>                                    |
| <b>(Loss) Profit for the period attributable to:</b>                           |       |                                 |   |
| Owners of the Company  |       | <b>(503)</b>                    | 4,147   |
| Non-controlling interests  |       | <u><b>2,440</b></u>             | <u>2,216</u>                                    |
|  |       | <u><b>1,937</b></u>             | <u>6,363</u>                                    |
| <b>(Loss) Earnings per share attributable to the owners<br/>of the Company</b> |       |                                 |   |
| – Basic and diluted  | 6     | <u><b>(0.02) cents</b></u>      | <u>0.17 cents</u>                               |

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

*For the six months ended June 30, 2013*

|   | <b>2013</b><br><i>HK\$'000</i><br><b>(unaudited)</b> | 2012<br><i>HK\$'000</i><br>(unaudited) |
|---|--|--|
| <b>Profit for the period</b>                                      | <u>1,937</u>   | <u>6,363</u>                           |
| <b>Other comprehensive income:</b>                                |  |  |
| Items that may be subsequently reclassified to profit or loss:    |  |  |
| Exchange differences on translation of foreign operations         | <u>(300)</u>   | <u>242</u>                             |
| <b>Total comprehensive income for the period</b>                  | <u><u>1,637</u></u>                                  | <u><u>6,605</u></u>                    |
| <b>Total comprehensive income for the period attributable to:</b> |  |  |
| Owners of the Company   | (842)  | 4,434                                  |
| Non-controlling interests   | <u>2,479</u>   | <u>2,171</u>                           |
|   | <u><u>1,637</u></u>                                  | <u><u>6,605</u></u>                    |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  |              | June 30,<br>2013       | December 31,<br>2012   |
|--|--------------|------------------------|------------------------|
|  | <i>Notes</i> | <b><i>HK\$'000</i></b> | <b><i>HK\$'000</i></b> |
|  |              | <b>(unaudited)</b>     | <b>(audited)</b>       |
| <b>Non-current assets</b>                    |              |                        |                        |
| Property, plant and equipment                |              | 93,481                 | 78,162                 |
| Goodwill                                     |              | 2,855                  | 2,855                  |
| Intangible assets                            |              | 5,400                  | 5,400                  |
| Available-for-sale investments               |              | 252                    | 252                    |
| Amounts due from associates                  |              | 42,684                 | 41,246                 |
| Rental deposits and prepayment               |              | 11,001                 | 7,539                  |
| Deferred tax assets                          |              | 184                    | 194                    |
|  |              | <b>155,857</b>         | 135,648                |
| <b>Current assets</b>                        |              |                        |                        |
| Inventories                                  |              | 353,825                | 416,577                |
| Properties held for sale                     |              | –                      | 30,070                 |
| Trade and other receivables                  | 7            | 145,398                | 128,275                |
| Loan receivables                             |              | 6,105                  | 6,086                  |
| Amounts due from associates                  |              | 30,233                 | 30,234                 |
| Bank balances and cash                       |              | 72,800                 | 85,780                 |
| Pledged bank deposits                        |              | 128,837                | 151,603                |
|  |              | <b>737,198</b>         | 848,625                |
| <b>Current liabilities</b>                   |              |                        |                        |
| Trade and other payables                     | 8            | 335,065                | 380,596                |
| Tax payable                                  |              | 4,234                  | 123                    |
| Amount due to a related company              |              | 441                    | 441                    |
| Bank and other borrowings                    | 9            | 270,228                | 326,563                |
| Obligations under finance leases             |              | 297                    | 302                    |
|  |              | <b>610,265</b>         | 708,025                |
| <b>Net current assets</b>                    |              | <b>126,933</b>         | 140,600                |
| <b>Total assets less current liabilities</b> |              | <b>282,790</b>         | 276,248                |

|  | <i>Note</i> | <b>June 30,<br/>2013<br/><i>HK\$'000</i><br/>(unaudited)</b> | December 31,<br>2012<br><i>HK\$'000</i><br>(audited) |
|--|-------------|--|--|
| <b>Capital and reserves</b>                  |             |  |  |
| Share capital                                |             | <b>59,189</b>  | 59,189   |
| Reserves                                     |             | <b>185,668</b>   | 186,510  |
|  |             | <hr/>  | <hr/>  |
| Equity attributable to owners of the Company |             | <b>244,857</b>   | 245,699  |
| Non-controlling interests                    |             | <b>26,639</b>  | 18,280   |
|  |             | <hr/>  | <hr/>  |
| <b>Total equity</b>                          |             | <b>271,496</b>   | 263,979  |
|  |             | <hr/>  | <hr/>  |
| <b>Non-current liabilities</b>               |             |  |  |
| Bank and other borrowings                    | 9           | <b>10,765</b>  | 11,577   |
| Obligations under finance leases             |             | <b>516</b>   | 679  |
| Deferred tax liabilities                     |             | <b>13</b>  | 13   |
|  |             | <hr/>  | <hr/>  |
|  |             | <b>11,294</b>  | 12,269   |
|  |             | <hr/>  | <hr/>  |
|  |             | <b>282,790</b>   | 276,248  |
|  |             | <hr/> <hr/>  | <hr/> <hr/>  |

**Notes:**

**1. GENERAL INFORMATION AND BASIS OF PREPARATION**

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the principal place of business is Unit C, 1/F., 2 Yuen Shun Circuit, Shatin, New Territories, Hong Kong.

The Company is a holding company with major subsidiaries engaged in import, marketing, distribution and after-sales service of high quality, branded products serving customers in the Asian region and, in particular, the markets of the Mainland China, Hong Kong, Macau, Singapore and Malaysia. The products include principally cars and car accessories, motor yachts, fashion apparels and accessories, air-conditioning and refrigeration products, audio-visual equipment, car audio and electronic products, other electronic and electrical products and property investment.

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

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

**2. PRINCIPAL ACCOUNTING POLICIES**

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2013 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2012.

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

## **Amendments to HKAS 1 Presentation of items of other comprehensive income**

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material impact on the amounts reported in these condensed consolidated financial statements and/or on the disclosures set out in these condensed consolidated financial statements.

### **3. SEGMENT INFORMATION**

Information reported to the Group's chief operating decision maker (“CODM”), being the Executive Directors of the Group, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services rendered which is also consistent with the basis of organisation of the Group. The Group's operating and reportable segments under HKFRS 8 are as follows:

- (i) Cars – Trading of cars and related accessories and provision of car repairing services
- (ii) Electrical appliances – Distribution of air-conditioning products, audio-visual equipment, car audio and other electrical appliances
- (iii) Fashion apparels and accessories – Distribution and retail of fashion apparels and accessories
- (iv) Others – Motor yachts and property investment

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

**For the six months ended June 30, 2013  
(unaudited)**

|                                | Cars<br><i>HK\$'000</i> | Electrical<br>appliances<br><i>HK\$'000</i> | Fashion<br>apparels and<br>accessories<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--------------------------------|-------------------------|---|---|---------------------------|---------------------------------|---------------------------------|
| <b>SEGMENT REVENUE</b>         |                         |   |   |                           |                                 |                                 |
| External sales                 | 560,201                 | 159,188                                     | 20,430  | -                         | -                               | 739,819                         |
| Inter-segment sales            | 2,242                   | 415   | 27  | -                         | (2,684)                         | -                               |
|                                | <u>562,443</u>          | <u>159,603</u>                              | <u>20,457</u>   | <u>-</u>                  | <u>(2,684)</u>                  | <u>739,819</u>                  |
| <b>SEGMENT RESULTS</b>         |                         |   |   |                           |                                 |                                 |
| Segment profit (loss)          | <u>21,554</u>           | <u>7,242</u>                                | <u>(3,471)</u>  | <u>(1,636)</u>            | <u>-</u>                        | <u>23,689</u>                   |
| Interest income                |                         |   |   |                           |                                 | 757                             |
| Unallocated corporate expenses |                         |   |   |                           |                                 | (8,170)                         |
| Finance costs                  |                         |   |   |                           |                                 | <u>(8,613)</u>                  |
| Profit before taxation         |                         |   |   |                           |                                 | <u><u>7,663</u></u>             |



For the six months ended June 30, 2012  
(unaudited and restated)

|                                    | Cars<br><i>HK\$'000</i> | Electrical<br>appliances<br><i>HK\$'000</i> | Fashion<br>apparels and<br>accessories<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|------------------------------------|-------------------------|---|---|---------------------------|---------------------------------|---------------------------------|
| <b>SEGMENT REVENUE</b>             |                         |   |   |                           |                                 |                                 |
| External sales                     | 696,224                 | 114,991                                     | 28,283  | –                         | –                               | 839,498                         |
| Inter-segment sales                | <u>46</u>               | <u>92</u>                                   | <u>11</u>   | <u>–</u>                  | <u>(149)</u>                    | <u>–</u>                        |
| Group revenue                      | <u><u>696,270</u></u>   | <u><u>115,083</u></u>                       | <u><u>28,294</u></u>                                      | <u><u>–</u></u>           | <u><u>(149)</u></u>             | <u><u>839,498</u></u>           |
| <b>SEGMENT RESULTS</b>             |                         |   |   |                           |                                 |                                 |
| Segment profit (loss)              | <u>20,842</u>           | <u>1,633</u>                                | <u>(1,534)</u>  | <u>(1,249)</u>            | <u>–</u>                        | 19,692                          |
| Interest income                    |                         |   |   |                           |                                 | 663                             |
| Unallocated other operating income |                         |   |   |                           |                                 | 8,567                           |
| Unallocated corporate expenses     |                         |   |   |                           |                                 | (7,500)                         |
| Finance costs                      |                         |   |   |                           |                                 | <u>(9,933)</u>                  |
| Profit before taxation             |                         |   |   |                           |                                 | <u><u>11,489</u></u>            |

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administrative costs, other gains and losses and finance costs. This is the measure reported to the Executive Directors for the purposes of resources allocation and performance assessment.

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

**Segment assets**

|                                  | <b>June 30,<br/>2013<br/><i>HK\$'000</i><br/>(unaudited)</b> | December 31,<br>2012<br><i>HK\$'000</i><br>(audited) |
|----------------------------------|--|--|
| Cars                             | 456,567  | 474,455  |
| Electrical appliances            | 119,231  | 116,513  |
| Fashion apparels and accessories | 23,592   | 29,675   |
| Others                           | <u>9,413</u>   | <u>41,620</u>  |
| Total segment assets             | <b>608,803</b>   | 662,263  |
| Available for sale investment    | 252  | 252  |
| Loan receivables                 | 6,105  | 6,086  |
| Bank balances and cash           | 72,800   | 85,780   |
| Pledged bank deposits            | 128,837  | 151,603  |
| Other unallocated assets         | <u>76,258</u>  | <u>78,289</u>  |
| Consolidated assets              | <b><u>893,055</u></b>  | <b><u>984,273</u></b>                                |

**Segment liabilities**

|                                  | <b>June 30,<br/>2013<br/><i>HK\$'000</i><br/>(unaudited)</b> | December 31,<br>2012<br><i>HK\$'000</i><br>(audited) |
|----------------------------------|--|--|
| Cars                             | 266,317  | 291,035  |
| Electrical appliances            | 65,956   | 53,578   |
| Fashion apparels and accessories | 6,984  | 8,705  |
| Others                           | <u>–</u>   | <u>18,401</u>  |
| Total segment liabilities        | <b>339,257</b>   | 371,719  |
| Bank and other borrowings        | 280,993  | 338,140  |
| Other unallocated liabilities    | <u>1,309</u>   | <u>10,435</u>  |
| Consolidated liabilities         | <b><u>621,559</u></b>  | <b><u>720,294</u></b>                                |

#### 4. TAXATION

|                     | Six months ended June 30, |                 |
|---------------------|---------------------------|-----------------|
|                     | 2013                      | 2012            |
|                     | <i>HK\$'000</i>           | <i>HK\$'000</i> |
|                     | (unaudited)               | (unaudited)     |
| Current tax:        |                           |                 |
| Hong Kong           | 5,052                     | 2,063           |
| Other jurisdictions | 674                       | 3,063           |
|                     | <u>5,726</u>              | <u>5,126</u>    |

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

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the both periods.

The Malaysia income tax is calculated at the statutory tax rate of 25% of the estimated taxable profit for the both periods.

Under Singapore Income Tax Act, the tax rate of the Singapore subsidiaries is 17% for the both periods.

#### 5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

|  | Six months ended June 30, |                 |
|--|---------------------------|-----------------|
|  | 2013                      | 2012            |
|  | <i>HK\$'000</i>           | <i>HK\$'000</i> |
|  | (unaudited)               | (unaudited)     |
| Depreciation of property, plant and equipment                                    | 11,301                    | 12,014          |
| Cost of inventories recognised as expense  | 579,760                   | 678,407         |
| (Reversal of allowance) allowance for inventories<br>(included in cost of sales) | (917)                     | 319             |

## 6. (LOSS) EARNINGS PER SHARE

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

|   | <b>Six months ended June 30,</b> |                             |
|---|----------------------------------|-----------------------------|
|   | <b>2013</b>                      | <b>2012</b>                 |
|   | <b>HK\$'000</b>                  | <b>HK\$'000</b>             |
|   | <b>(unaudited)</b>               | <b>(unaudited)</b>          |
| (Loss) profit for the period attributable to owners of the Company and (loss) profit for the purpose of basic and diluted (loss) earnings per share | <u><b>(503)</b></u>              | <u><b>4,147</b></u>         |
|   | <b>Six months ended June 30,</b> |                             |
|   | <b>2013</b>                      | <b>2012</b>                 |
|   | <b>Number</b>                    | <b>Number</b>               |
|   | <b>of shares</b>                 | <b>of shares</b>            |
|   | <b>(unaudited)</b>               | <b>(unaudited)</b>          |
| Weighted average number of ordinary shares for the purpose of basic earnings per share  | <b>2,959,452,260</b>             | 2,459,155,363               |
| Effect of dilutive potential ordinary shares – Share options  | <u><b>–</b></u>                  | <u><b>42,332</b></u>        |
|   | <u><b>2,959,452,260</b></u>      | <u><b>2,459,197,695</b></u> |

No diluted loss per share for the six months ended June 30, 2013 is presented because as the exercise of the dilutive potential ordinary shares would result in reduction in loss per share.

## 7. TRADE AND OTHER RECEIVABLES

|                                    | <b>June 30,<br/>2013<br/><i>HK\$'000</i><br/>(unaudited)</b> | December 31,<br>2012<br><i>HK\$'000</i><br>(audited) |
|------------------------------------|--|--|
| Trade receivables                  | <b>98,689</b>  | 73,237   |
| Less: Allowance for doubtful debts | <u><b>(3,997)</b></u>  | <u>(3,770)</u>                                       |
|                                    | <b>94,692</b>  | 69,467   |
| Purchase deposits                  | <b>10,052</b>  | 10,646   |
| Utility and rental deposits        | <b>3,515</b>   | 7,559  |
| Other tax receivables              | <b>11,409</b>  | 12,456   |
| Prepayments and other receivables  | <u><b>25,730</b></u>   | <u>28,147</u>  |
|                                    | <u><b>145,398</b></u>  | <u>128,275</u>                                       |

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

|                | <b>June 30,<br/>2013<br/><i>HK\$'000</i><br/>(unaudited)</b> | December 31,<br>2012<br><i>HK\$'000</i><br>(audited) |
|----------------|--|--|
| Within 30 days | <b>51,970</b>  | 36,707   |
| 31 to 60 days  | <b>22,730</b>  | 18,142   |
| 61 to 90 days  | <b>8,743</b>   | 6,608  |
| 91 to 1 year   | <b>9,458</b>   | 7,058  |
| Over 1 year    | <u><b>1,791</b></u>  | <u>952</u>   |
|                | <u><b>94,692</b></u>   | <u>69,467</u>  |

## 8. TRADE AND OTHER PAYABLES

The average credit period on purchases of goods is 30 to 90 days. The following is an aged analysis of the trade and bills payables presented based on the invoice date at the end of the reporting period:

|                                  | <b>June 30,<br/>2013<br/>HK\$'000<br/>(unaudited)</b> | December 31,<br>2012<br>HK\$'000<br>(audited) |
|----------------------------------|---|---|
| Within 30 days                   | <b>51,132</b>   | 57,613  |
| 31 to 60 days                    | <b>9,688</b>  | 6,775   |
| 61 to 90 days                    | <b>721</b>  | 1,358   |
| 91 days to 1 year                | <b>833</b>  | 834   |
| Over 1 year                      | <b>2,422</b>  | 2,464   |
|                                  | <hr/>   | <hr/>   |
| Trade and bills payables         | <b>64,796</b>   | 69,044  |
| Deposits received from customers | <b>166,893</b>  | 165,341                                       |
| Advance payments from customers  | –   | 65,883  |
| Other payables                   | <b>62,262</b>   | 64,291  |
| Accrued charges                  | <b>41,114</b>   | 16,037  |
|                                  | <hr/>   | <hr/>   |
|                                  | <b>335,065</b>  | 380,596                                       |
|                                  | <hr/> <hr/>   | <hr/> <hr/>                                   |

## 9. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained several new bank loans from various banks amounting to HK\$504,061,000 (six months ended June 30, 2012: HK\$648,697,000) and repaid HK\$554,896,000 (six months ended June 30, 2012: HK\$577,245,000). The bank and other borrowings are variable-rate borrowings which bear average effective interest rate (which is also equal to contracted interest rate) at 5.73% (December 31, 2012: 4.60%) per annum.

## 10. PRIOR YEAR FINANCIAL INFORMATION

The management has further evaluated the classifications and terminologies of certain balances of the condensed consolidated financial statements. Reclassification were made for the comparative information to achieve consistent presentation with the current period's presentation. The reconciliations in respect of the comparative information are shown as follows:

| <b>Financial statements line item</b>              | <b>As<br/>originally<br/>stated<br/>HK\$'000</b> | <b>Reclassification<br/>HK\$'000</b> | <b>After<br/>reclassification<br/>HK\$'000</b> |
|--|--|--------------------------------------|--|
| Condensed consolidated statement of profit or loss |  |                                      |  |
| Revenue ( <i>Note</i> )                            | 1,111,240  | (271,742)                            | 839,498  |
| Cost of sales ( <i>Note</i> )                      | (950,468)  | 271,742                              | (678,726)                                      |
| Selling and distribution costs                     | (82,037)   | (10,769)                             | (92,806)                                       |
| Administrative expenses                            | (76,261)   | 10,515                               | (65,746)                                       |
| Other operating income                             | 19,202   | (19,202)                             | –  |
| Other income and expenses                          | –  | 10,438                               | 10,438   |
| Other gains and losses                             | –  | 8,764                                | 8,764  |
| Finance costs                                      | (10,187)   | 254                                  | (9,933)  |
|  | <u>                    </u>                      | <u>                    </u>          | <u>                    </u>                    |

*Note:* The amount represents first registration tax (“FRT”) charged by the Hong Kong Government. On the first registration of a motor vehicle in Hong Kong, FRT is charged to the buyer. Licensing of vehicles takes place only after registration by the importer who collects the FRT from the buyer on behalf of the Hong Kong Government. As a result, the Directors consider it is more appropriate to exclude FRT in both revenue and cost of sales.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2013 (2012: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

### **FINANCIAL REVIEW**

#### **Results of Operations**

For the first half of 2013, the economic environment in Hong Kong and Mainland China continued to be sluggish. Total revenue decreased from HK\$839.5 million to HK\$739.8 million. Despite this adverse sales performance, we managed to raise our gross profit margin for the period from 19.2% (HK\$160.8 million) to 21.8% (HK\$161.0 million).

Our total other operating income and expenses amounted to HK\$8.9 million (2012: HK\$19.2 million) of which HK\$7.6 million was derived from our cars segment.

For the period under review, our two core expense items of selling and distribution costs and administrative expenses aggregated to HK\$153.5 million (2012: HK\$158.5 million), representing 20.7% of turnover (2012: 18.9%). Given the nature of these expenses were relatively “fixed”, this decrease of HK\$5.0 million demonstrated our efforts of cost control when our sales were contracted.

Finance costs of HK\$8.6 million were recorded in the first half of 2013 (2012: HK\$9.9 million), representing a cost of 1.2% of sales (2012: 1.2%).

The board of Directors (the “Board”) is pleased to announce that the consolidated profit for the first half of 2013 amounted to HK\$1.9 million (2012: HK\$6.4 million).

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

The Group was financed by a combination of its equity capital base, cash flow generated from operations and bank borrowings. As usual, bank and other liabilities were being met upon their maturities in the normal course of business.

Cash and cash equivalents (including pledged bank deposits) at June 30, 2013 were HK\$201.6 million (December 31, 2012: HK\$237.4 million). A net cash outflow of HK\$6.1 million (2012: HK\$5.2 million) was recorded, representing in aggregate funds used in operating, investing and financing activities in the period.



The Group had total borrowings at June 30, 2013 amounting to HK\$281.0 million (December 31, 2012: HK\$338.2 million). The Group's long term gearing ratio stood at 4.6% (December 31, 2012: 5.0%), based on non-current liabilities (excluding deferred tax) of HK\$11.3 million (December 31, 2012: HK\$12.3 million) and shareholders' equity of HK\$244.9 million (December 31, 2012: HK\$245.7 million). The current ratio was 1.2 (December 31, 2012: 1.2), based on current assets of HK\$737.2 million (December 31, 2012: HK\$848.6 million) and current liabilities of HK\$610.3 million (December 31, 2012: HK\$708.0 million).

The Group had trading facilities at June 30, 2013 amounting to HK\$480.5 million (December 31, 2012: HK\$452.4 million) of which HK\$389.3 million (December 31, 2012: HK\$438.7 million) was utilized.

### **Foreign Exchange Exposure**

The Group's purchases are mainly conducted in HK Dollar, Renminbi and US Dollar whilst sales are mainly conducted in HK Dollar and Renminbi. During the period, the Group had entered into several forward exchange contracts with bankers to hedge foreign currency transactions with the objective to stabilize the cost. At June 30, 2013, the outstanding foreign exchange contracts purchased with banks amounted to HK\$18.8 million (December 31, 2012: nil).

### **Pledge of Assets**

Certain of the Group's properties, inventories, cash deposits and all assets of certain subsidiaries were pledged at June 30, 2013 in an aggregate amount of HK\$339.3 million (December 31, 2012: HK\$395.6 million) to secure loans and facilities granted.

### **Capital Commitments and Contingent Liabilities**

The Group had no material capital commitments at June 30, 2013 (December 31, 2012: HK\$4.5 million). The Group had no material contingent liabilities at June 30, 2013 and December 31, 2012.

## **BUSINESS REVIEW**

### **Cars**

The business consists mainly of the import, distribution and after-sales service of Italian "Ferrari" and "Maserati" cars and spare parts in Hong Kong and Macau. In the Mainland China, we operate "Ferrari" and "Maserati" car dealerships in Nanjing and Dalian (closed down in February 2013) and "Ferrari" and "Maserati" pre-delivery inspection business in Shanghai.

During the period, segment revenue decreased by 19.5% to HK\$560.2 million (2012: HK\$696.2 million). It was mainly due to a 61.6% drop in sale from HK\$202.4 million to HK\$77.8 million from our dealership operation in Mainland China. Despite a decline in revenue, our car segment profit still recorded a 3.8% increase to HK\$21.6 million (2012: HK\$20.8 million). It was contributed by our operation in Hong Kong which recorded a growth of 71.9% in operating profit from HK\$18.5 million in 2012 to HK\$31.8 million.

In Hong Kong, Ferrari sales in 2013 have started reasonably well. F12 Berlinetta, the successor to the 599 series, started deliveries to customers in second quarter of 2013. This model is well received by our customers as evidenced by the large number of firm orders secured by the end of June 2013.

Demand for Maserati's two-door range of coupes and convertibles remained satisfactory given the condition of the local car market and the aggressive sales approach of many competitors. All the run-out Quattroportes (Maserati's four-door saloon) were delivered early in the year in preparation for the arrival of the sixth generation which was launched at the end of 2012. The first left hand drive new Quattroportes was delivered to Macau by the close of June. First delivery of right hand drive is scheduled from fourth quarter of 2013.

Workshop service revenue for the first half this year remained static to the same period of 2012.

The sale performance of our dealerships in the Mainland China was not satisfactory due to severe market conditions. In February 2013, our business in Dalian was closed down as we considered that its business performance as well as potential was far from satisfactory.

### **Electrical Appliances**

The business consists of distribution of consumer and commercial air-conditioning and home appliances products, namely "MHI" (Mitsubishi Heavy Industries), "Bodysonic" and "GREE"; audio-visual products of "Rogers" and car electronics products of "Alpine".

Turnover in this segment recorded an increase of 38.4%, from HK\$115.0 million in the last period to HK\$159.2 million.

In Hong Kong, the demand for and sales of air-conditioning products and audio-visual products remained good in general but continuous rainy weather in the second quarter has affected the demand for air-conditioners.

While our business in Singapore was in line with budget, Malaysia has recorded a slight setback and its financial performance was behind budget.

## **Fashion Apparels and Accessories**

The business consists of the distribution of our men's wear brand 'V-one' and fashionable watches, namely "D&G", "Moschino", "Vivienne Westwood", "Jorg Gray" and "Braun".

The critical retail market situation in Mainland China has led to the poor performance of our men's wear brand "V-one". Sluggish local consumption placed our apparel business under great pressure.

Our watch business was also adversely affected, to a certain extent, by the fragile market in Mainland China although the business in Hong Kong remained steady.

## **HUMAN RESOURCES**

During the period, the total number of employees of the Group, excluding associates, was 410 (2012: 430).

The management is committed to staff motivation and development to ensure that the standard of our employees remains competitive in the marketplace. We are confident that our employees will continue to grow with the business and contribute their best to the Group.

## **EVENTS AFTER THE REPORTING PERIOD**

- (a) On July 16, 2013, Auto Italia Limited ("AIL"), a 75.4%-owned subsidiary of the Company, as borrower entered into a loan agreement with VMS Investment Group Limited ("VMSIG") as lender in relation to a revolving loan facility in the amount of HK\$26 million ("Revolving Loan"). VMSIG is deemed to be interested in approximately 7.57% of the issued share capital of the Company. The Revolving Loan is unsecured and non-interest bearing. AIL shall notify VMSIG a proposed date of repayment for each drawdown which may be extended by VMSIG at its sole discretion at the request of AIL. The proceeds of the Revolving Loan will be used to finance partially the purchase of the anticipated increase in scheduled delivery of new cars in the coming months as well as for the general working capital of car business of the Group.

At the date of this announcement, AIL has drawn down in the amount of HK\$10 million with a proposed date of repayment on September 18, 2013.

- (b) On July 18, 2013, the Company announced that the Company is under a negotiation with Dr. Richard Man Fai LEE (“Dr. Lee”), the executive chairman and chief executive officer of the Company, with regard to a possible disposal (“Possible Disposal”) of the non-car businesses (including the businesses of electrical appliances, fashion apparels and accessories, and other businesses other than car business, collectively “Non-car Business Segments”) of the Company to Dr. Lee and/or his nominee at a consideration to be determined with reference to the audited financial statements of the companies within the Non-car Business Segments. Please refer to the Company’s website for the full version and contents of the said announcement.

At the date of this announcement, the negotiation of this Possible Disposal is still in process.

## **PROSPECTS**

The Group’s order portfolio for “Ferrari” continues to remain relatively strong with an average overall lead-time of just under a year, whilst the profile of “Maserati” will continue to broaden. Both brands are expected to introduce exciting new models, includes “Ferrari” next ‘Supercar’, the LaFerrari, “Maserati” new E-segment car and a new Sport Utility Vehicle (SUV), Levante, in the coming years to further expand their market dominance and reach for new clients.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended June 30, 2013, the Company and its subsidiaries had not repurchased, sold or redeemed any of the Company’s securities.

## **CORPORATE GOVERNANCE**

Maintaining an effective corporate governance framework is one of the priorities of the Company. In the opinion of the Directors, the Company has complied with all the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules during the six months ended June 30, 2013, except Code Provisions A.2.1, A.6.7 and E.1.2 of the CG Code.

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Richard Man Fai LEE is the Executive Chairman and Chief Executive Officer of the Company. Dr. Lee has extensive experience in marketing consumer products and is responsible for the overall strategic planning and business development of the Group. The Board considers that vesting the roles of Chairman and Chief Executive Officer simultaneously on Dr. Lee is beneficial to the business prospects and management of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management. This is because the Board has adopted clear guidelines as to the power and authority of the Board and the management. There are guidelines as to the power and duties of Chief Executive Officer. The details were set out fully in the corporate governance report in the Company’s 2005 annual report.

In addition, the Board which comprises experienced and high calibre individuals meets regularly to discuss issues and operation of the Group. The Board believes that this structure is conducive to strengthen and maintain consistent leadership, enabling the Group to make and implement decisions promptly and efficiently.

In respect of Code Provision A.6.7 of the CG Code, due to other business engagements, two independent non-executive Directors were unable to attend the annual general meeting of the Company held on May 30, 2013.

In respect of Code Provision E.1.2 of the CG Code, due to other business engagements, the Chairman of the Board was unable to attend the annual general meeting of the Company held on May 30, 2013.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)**

The Company has adopted a code of conduct for transactions in the Company’s securities by the Directors that complies with the Model Code as set out in Appendix 10 to the Listing Rules. Followed specific enquiries by the Company, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended June 30, 2013.

## **AUDIT COMMITTEE REVIEW**

The audit committee of the Company has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2013 and was content that the accounting policies of the Group were in accordance with the current best practice in Hong Kong.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

The results announcement is published on the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website ([www.autoitalia.com.hk](http://www.autoitalia.com.hk)). The interim report will be despatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board  
**AUTO ITALIA HOLDINGS LIMITED**  
**Dr. Richard Man Fai LEE**  
*Executive Chairman & Chief Executive Officer*

Hong Kong, August 28, 2013

*At the date of this announcement, the Board comprises Dr. Richard Man Fai LEE (Executive Chairman and Chief Executive Officer), Mr. Benny Tin Lung CHONG (Vice-Chairman), Mr. Tik Tung WONG, Mr. William Keith JACOBSEN and Mr. Chi Yan LAM, all of whom are executive Directors, Mr. Boon Seng TAN, Dr. Antonio Maria SANTOS and Mr. Frankie To Yeung KONG, all of whom are independent non-executive Directors.*

\* *for identification purposes only*