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AUTO ITALIA HOLDINGS LIMITED

意達利控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 720)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

The directors (the “Directors”) of Auto Italia Holdings Limited (the “Company”) hereby announce the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2015 as follows:-

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	4	973,140	1,095,363
Cost of sales		(720,329)	(847,583)
Gross profit		252,811	247,780
Other income	5	22,710	39,329
Other gains and losses	6	(8,318)	(2,579)
Selling and distribution costs		(143,081)	(139,415)
Administrative expenses		(83,725)	(95,287)
Finance costs	7	(3,038)	(5,881)
Profit before taxation		37,359	43,947
Taxation	8	(9,603)	(7,642)
Profit for the year	9	27,756	36,305
Profit for the year attributable to:			
Owners of the Company		27,756	27,576
Non-controlling interests		–	8,729
		27,756	36,305
Earnings per share attributable to the owners of the Company	10		
– Basic		HK0.53 cent	HK0.71 cent
– Diluted		HK0.53 cent	N/A

* *For identification purposes only*

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

For the year ended 31 December 2015

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	27,756	36,305
Other comprehensive income:		
Item that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	<u>835</u>	<u>269</u>
Other comprehensive income for the year	<u>835</u>	<u>269</u>
Total comprehensive income for the year	<u>28,591</u>	<u>36,574</u>
Total comprehensive income attributable to:		
Owners of the Company	28,591	27,774
Non-controlling interests	<u>–</u>	<u>8,800</u>
	<u>28,591</u>	<u>36,574</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		108,403	97,803
Goodwill		2,480	2,480
Rental deposits		14,094	10,997
		<u>124,977</u>	<u>111,280</u>
Current assets			
Inventories		200,457	138,570
Tax recoverables		1,956	1,072
Trade and other receivables	<i>12</i>	78,450	104,978
Loan receivables	<i>13</i>	76,000	79,270
Investments in convertible bonds	<i>11</i>	26,772	–
Pledged bank deposits		59,655	58,896
Bank balances and cash		207,611	269,915
		<u>650,901</u>	<u>652,701</u>
Current liabilities			
Trade and other payables	<i>14</i>	252,943	308,497
Tax payable		7,695	3,581
Bank and other borrowings	<i>15</i>	105,532	84,288
Obligations under finance leases		74	149
		<u>366,244</u>	<u>396,515</u>
Net current assets		<u>284,657</u>	<u>256,186</u>
Total assets less current liabilities		<u>409,634</u>	<u>367,466</u>
Capital and reserves			
Share capital		104,079	103,784
Reserves		298,221	255,312
Total equity		<u>402,300</u>	<u>359,096</u>
Non-current liabilities			
Bank and other borrowings	<i>15</i>	6,610	8,296
Obligations under finance leases		–	74
Deferred taxation		724	–
		<u>7,334</u>	<u>8,370</u>
		<u>409,634</u>	<u>367,466</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 “Ferrari” and “Maserati” branded cars in Hong Kong and Macau, the provision of pre-delivery inspection service in Shanghai, the People’s Republic of China (“PRC”) and Hong Kong as well as provision of financing and property investment.

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

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

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

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial instruments ²
HKFRS 15	Revenue from contracts with customers ²
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to HKAS 1	Disclosure initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ¹
Amendments to HKFRS 27	Equity method in separate financial statements ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2016.

² Effective for annual periods beginning on or after 1 January 2018.

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

HKFRS 9 “Financial instruments”

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (“FVTOCI”) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have impact on amounts reported in respect of the Group's financial assets based on the financial assets and liabilities as at 31 December 2015. Such application may also result in provision of 12 month and lifetime expected credit losses on financial assets. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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

3. SEGMENT INFORMATION

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

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

- (i) Cars – Trading of cars and related accessories and provision of car repairing services;
- (ii) Financial investments and services – Investments in securities, provision for financing and corporate finance services; and
- (iii) Other – Property investment.

Segment profit represents the profit earned by each segment without allocation of interest income from bank deposits/bank balances, certain unallocated corporate expenses and finance costs. This is the measure reported to CODM for the purpose of resource allocation and assessment of segment performance. The accounting policies of this segment are the same as the Group's accounting policies.

Segment revenue and results

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

For the year ended 31 December 2015

	Cars <i>HK\$'000</i>	Financial investments and services <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE				
Group's revenue	<u>955,615</u>	<u>17,525</u>	<u>–</u>	<u>973,140</u>
SEGMENT RESULTS				
Segment profit	<u>39,341</u>	<u>17,851</u>	<u>–</u>	<u>57,192</u>
Interest income				<u>661</u>
Unallocated corporate expenses				<u>(17,456)</u>
Finance costs				<u>(3,038)</u>
Profit before taxation				<u>37,359</u>

For the year ended 31 December 2014

	Cars <i>HK\$'000</i>	Financial investments and services <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE				
Group's revenue	<u>1,073,374</u>	<u>20,119</u>	<u>1,870</u>	<u>1,095,363</u>
SEGMENT RESULTS				
Segment profit	<u>35,009</u>	<u>19,194</u>	<u>1,777</u>	<u>55,980</u>
Interest income				<u>1,639</u>
Unallocated corporate expenses				<u>(7,791)</u>
Finance costs				<u>(5,881)</u>
Profit before taxation				<u>43,947</u>

Segment assets and liabilities*At 31 December 2015*

	Cars <i>HK\$'000</i>	Financial investments and services <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	<u>360,185</u>	<u>103,197</u>	<u>–</u>	<u>463,382</u>
Bank balances and cash				207,611
Pledged bank deposits				59,655
Tax recoverable				1,956
Unallocated corporate assets				<u>43,274</u>
Consolidated assets				<u><u>775,878</u></u>
Liabilities				
Segment liabilities	<u>247,808</u>	<u>333</u>	<u>–</u>	<u>248,141</u>
Bank and other borrowings				112,142
Deferred taxation				724
Tax payable				7,695
Unallocated corporate liabilities				<u>4,876</u>
Consolidated liabilities				<u><u>373,578</u></u>

At 31 December 2014

	Cars <i>HK\$'000</i>	Financial investments and services <i>HK\$'000</i>	Other <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	<u>300,703</u>	<u>86,870</u>	<u>–</u>	<u>387,573</u>
Bank balances and cash				269,915
Pledged bank deposits				58,896
Tax recoverable				1,072
Unallocated corporate assets				<u>46,525</u>
Consolidated assets				<u><u>763,981</u></u>
Liabilities				
Segment liabilities	<u>304,086</u>	<u>–</u>	<u>–</u>	<u>304,086</u>
Bank and other borrowings				92,584
Tax payable				3,581
Unallocated corporate liabilities				<u>4,634</u>
Consolidated liabilities				<u><u>404,885</u></u>

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

- all assets are allocated to operating segment other than corporate assets, tax recoverable, bank balances and cash and pledged bank deposits;
- all liabilities are allocated to operating segment other than corporate liabilities, tax payable, deferred taxation and bank and other borrowings.

Other segment information

For the year ended 31 December 2015

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment result or segment assets					
Addition of property, plant and equipment	37,224	–	–	–	37,224
Depreciation of property, plant and equipment	(20,285)	–	–	(1,625)	(21,910)
Gain (loss) on disposal of property, plant and equipment	8	–	–	(1,174)	(1,166)
Impairment losses on trade and other receivables, net	(801)	–	–	–	(801)
Reversal of allowance for inventories					
– Hong Kong	2,941	–	–	–	2,941
	<u>2,941</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,941</u>

For the year ended 31 December 2014

	Cars HK\$'000	Financial investments and services HK\$'000	Other HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment result or segment assets					
Addition of property, plant and equipment	44,159	–	–	–	44,159
Depreciation of property, plant and equipment	(14,408)	–	(209)	(581)	(15,198)
(Loss) gain on disposal of property, plant and equipment	(814)	–	(6)	3	(817)
Impairment losses on trade and other receivables, net	(161)	–	–	–	(161)
Reversal of allowance (allowance) for inventories					
– PRC	23,653	–	–	–	23,653
– Hong Kong	(9,639)	–	–	–	(9,639)
	<u>(9,639)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(9,639)</u>

Information about major customers

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

Geographical information

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Hong Kong	869,971	874,884
Mainland China	103,169	220,479
	<u>973,140</u>	<u>1,095,363</u>

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Hong Kong	121,751	109,929
Mainland China	873	1,351
	<u>122,624</u>	<u>111,280</u>

4. REVENUE

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Sales of goods to customers, less returns and discounts	730,404	899,666
Maintenance service income	225,211	173,708
Financial service income	5,600	14,175
Interest income	11,925	5,944
Others	–	1,870
	<u>973,140</u>	<u>1,095,363</u>

5. OTHER INCOME

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Commission income	5,668	3,453
Interest income	661	1,639
Effective interest income from investments in convertible bonds (<i>note 11</i>)	783	–
Dividend income	8,473	3,695
Subsidies income from suppliers	–	20,190
Others	7,125	10,352
	<hr/> 22,710 <hr/>	<hr/> 39,329 <hr/>

6. OTHER GAINS AND LOSSES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Impairment losses on trade and other receivables, net	(801)	(161)
Net foreign exchange losses	(7,169)	(1,601)
Loss on disposal of property, plant and equipment	(1,166)	(817)
Gain on fair value change of derivative component of investments in convertible bonds (<i>note 11</i>)	818	–
	<hr/> (8,318) <hr/>	<hr/> (2,579) <hr/>

7. FINANCE COSTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interests on bank and other borrowings	3,027	5,870
Interest on finance leases	11	11
	<hr/> 3,038 <hr/>	<hr/> 5,881 <hr/>

8. TAXATION

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current tax		
Hong Kong	4,475	4,740
Other jurisdictions	4,358	2,616
	<u>8,833</u>	<u>7,356</u>
Underprovision in prior years		
Other jurisdictions	46	286
Deferred tax		
Current year	724	–
	<u>9,603</u>	<u>7,642</u>

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

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 20%.

9. PROFIT FOR THE YEAR

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Auditor’s remuneration	1,500	1,510
Depreciation of property, plant and equipment	21,910	15,198
Staff costs:		
Directors’ emoluments	10,139	7,415
Salaries and allowances	67,099	74,816
Share-based payments	7,700	1,330
Retirement benefits scheme contributions	2,488	2,405
	87,426	85,966
Cost of inventories recognised as expense	716,119	847,583
Reversal of allowance for inventories (included in cost of inventories) (<i>Note</i>)	(2,941)	(14,014)
Operating lease payments in respect of rented properties	<u>60,523</u>	<u>55,168</u>

Note: The reversal allowance for the years ended 31 December 2015 and 2014 is resulted from the subsequent sale of the relevant inventories.

10. EARNINGS PER SHARE

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Profit for the year attributable to owners of the Company and profit for the purpose of basic and diluted earnings per share	<u>27,756</u>	<u>27,576</u>
	2015 <i>Number of shares</i>	2014 <i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	5,191,504,949	3,888,107,199
Effect of dilutive potential ordinary shares		
Share options	<u>78,339,718</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>5,269,844,667</u>	<u>3,888,107,199</u>

For the year ended 31 December 2014, the computation of diluted earnings per share does not assume the exercise of the share options granted since the exercise price of the share options outstanding was higher than average market price of the shares during the year.

11. INVESTMENTS IN CONVERTIBLE BONDS

On 12 November 2015, the Company subscribed convertible bonds (“CBs”) issued by New Sports Group Limited (“New Sports Group”) in an aggregate principal amount of HK\$25,000,000 at a coupon rate of 5% per annum payable on the date of redemption with a maturity date of first anniversary of the issue date (“maturity date”) which are denominated in HK\$. The CBs entitle the bondholders to convert them into shares of New Sports Group at any time commencing from the 3 months after the issue date and up to and including the 10th business day immediately preceding the maturity date, at a conversion price per share HK\$0.250, subject to anti-dilutive clauses.

The fair values of the CBs and its components on initial recognition are determined based on the valuation conducted by an independent professional valuer. On initial recognition, the fair value of the debt component of CBs is determined using the prevailing market interest rate of similar non-convertible debts and is carried at amortised cost subsequently. The effective interest rate is 27.828%. The fair value of the embedded conversion options of CBs as at the acquisition date and 31 December 2015 are calculated using the Binomial Model. The inputs into the model were as follows:

	12 November 2015	31 December 2015
Stock price	HK\$0.240	HK\$0.226
Exercise price	HK\$0.250	HK\$0.250
Discount rate	27.828%	31.415%
Risk-free rate (<i>Note a</i>)	0.084%	0.084%
Expected volatility (<i>Note b</i>)	54.678%	54.206%
Expected dividend yield (<i>Note c</i>)	0.000%	0.000%
Option life	<u>0.984 year</u>	<u>0.867 year</u>

Notes:

- (a) The rate was determined with reference to 1 year Hong Kong Dollar Hong Kong Sovereign Base Curve.
- (b) Based on the historical price volatility of a set of comparable companies with similar business nature with New Sports Group over the bond period.
- (c) Estimated by reference to the historical dividend payout of New Sports Group.

During the year ended 31 December 2015, the Group recognised fair value gain of the derivative component of investments in convertible bonds of HK\$818,000 in other gains or losses and effective interest income of HK\$783,000 in other income.

As at 31 December 2015, the carrying amounts of the debt and the derivative components of the investments in convertible bonds are HK\$21,490,000 and HK\$5,282,000 respectively.

12. TRADE AND OTHER RECEIVABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade receivables	49,809	45,889
Less: Allowance for doubtful debts	<u>(641)</u>	<u>(2,162)</u>
	49,168	43,727
Purchase deposits	18,388	35,612
Utility and rental deposits	2,036	5,720
Prepayments and other receivables	<u>8,858</u>	<u>19,919</u>
	<u>78,450</u>	<u>104,978</u>

Trade receivables

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within 30 days	35,428	29,040
31 to 60 days	10,349	7,647
61 to 90 days	419	4,652
91 days to 1 year	2,878	2,388
Over 1 year	<u>94</u>	<u>–</u>
	<u>49,168</u>	<u>43,727</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit was initially granted up to the end of the reporting period.

At 31 December 2015, included in the Group's trade receivable balances are receivables with aggregate carrying amounts of HK\$2,972,000 (2014: HK\$2,388,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As these balances were either subsequently settled or these customers have good repayment history, the amounts are still considered recoverable. Accordingly, the directors believe that no impairment is required. The Group does not hold any collateral over these balances.

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
91 days to 1 year	2,878	2,388
Over 1 year	94	–
	<u>2,972</u>	<u>2,388</u>

13. LOAN RECEIVABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Fixed-rate loans	<u>76,000</u>	<u>79,270</u>

The outstanding loan receivables are due from independent third parties and carry on interest rate of 8% per annum (2014: ranged from 15% to 24% per annum). The loans amounts of HK\$38,000,000 and HK\$38,000,000 (2014: HK\$40,000,000 and HK\$39,270,000) will be repaid in November 2016 and December 2016 (2014: March 2015 and November 2015) respectively. As at 31 December 2015, the balances were secured by listed securities in Hong Kong with fair values of HK\$61,600,000 and HK\$61,600,000 (2014: HK\$143,632,000 and HK\$168,300,000) respectively.

The Group has a policy for allowance of doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on directors' judgement, including the current creditworthiness of each debtor and the collaterals.

In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date credit was initially granted up to the end of the reporting period and the fair value of the securities pledged by the borrowers. The balances are neither past due nor impaired at the end of the reporting period for which the Group believes that the amounts are considered recoverable as the creditworthiness is satisfactory. Accordingly, the directors believe that there is no credit provision required.

14. 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 to 90 days. The following is an aged analysis of trade and bills payables presented based on invoice date at the end of the reporting period.

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within 30 days	14,431	27,397
31 to 60 days	5,225	2,198
61 to 90 days	120	835
91 days to 1 year	949	–
Over 1 year	786	501
	<hr/>	<hr/>
Trade and bills payables	21,511	30,931
Deposits received from customers	171,953	186,485
Advance payments from customers	8,040	31,406
Accrued charges	17,795	18,185
Other payables	33,644	41,490
	<hr/>	<hr/>
	252,943	308,497

15. BANK AND OTHER BORROWINGS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Bank borrowings	8,295	17,169
Trust receipt loans	87,858	69,550
Other borrowings from a restricted licensed bank	15,989	5,865
	<hr/>	<hr/>
	112,142	92,584
	<hr/>	<hr/>
Secured	112,142	92,584
	<hr/>	<hr/>
Carrying amount repayable:		
Within one year	105,532	84,288
More than one year, but not exceeding two years	1,718	1,686
More than two years, but not more than five years	4,892	5,250
More than five years	–	1,360
	<hr/>	<hr/>
	112,142	92,584
Less: Amounts due within one year shown under current liabilities	(105,532)	(84,288)
	<hr/>	<hr/>
Amounts shown under non-current liabilities	6,610	8,296

As at 31 December 2015, included in the carrying amount repayable within one year is a balance of HK\$103,846,000 (2014: HK\$82,634,000) that contains a repayable on demand clause.

As at 31 December 2015, the bank and other borrowings are variable-rate borrowings which bear average effective interest rate (which is also equal to contracted interest rate) at 3.83% per annum (2014: 4.11% per annum).

DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2015 (2014: Nil), nor has any dividend been proposed since the end of the reporting period (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Ferrari

In 2015, the overall deliveries of new Ferrari cars had recorded a mild growth as compared to 2014. This growth was supported by the latest model California T, the special limited edition of 458 Speciale A, as well as the 12 cylinder flagship F12berlinetta. In the second half of 2015, Ferrari announced the F12TDF, the special limited edition of 799 units worldwide and the successor of the legendary 599GTO, featuring 780 horsepower and innovative four wheel steering system, which makes the F12TDF one of the most desirable items in the luxury car market and we have secured a number of allocations for our collectors in Hong Kong.

Our Pre-Owned Car business has continued to bring premium quality pre-owned Ferraris by conducting the “Ferrari Approved” check based on the factory guidelines on used Ferraris of under 10 years old for all our stock Pre-Owned Ferraris, customers purchasing our Ferrari Approved cars will receive quality used Ferrari in the market with one year warranty. To cope with the expansion of the classic car market, we will further invest our resources in promoting the Ferrari Classiche Programme at our Hong Kong’s only approved Classiche certification workshop. In 2016, we aim to further enhance the performance of our Pre-Owned Car business by enlarging the inventory as well as broadening the range of cars available. We strive to provide excellent services to our customers, whether buying a brand new or pre-owned car from us.

In marketing and communications aspects, we have proven ourselves for another year in terms of driving sales and strengthening customer relations. We have built a strong bond with customers by creating opportunities for them to drive their Ferraris. We organised a Driving Experience Event at the Asia World Expo in March 2015, as well as a track day with 488GTB test drive event in September 2015. Moreover, we launched the 488GTB in Hong Kong in August 2015 and achieved an astonishing result in new order intakes. In 2016, we are looking forward to the launch of the 488Spider and will work with our greatest passion in providing more dynamic events to Ferrari owners and prospective buyers in Hong Kong.

Maserati

Against the challenging market instability in 2015, Maserati had sustained a drop in overall sales units as compared to that of 2014. Nevertheless, with a significant growth of nearly 10 percentage points from the previous year, we achieved a record high market share of 22% in the Maserati segment. This success was mainly driven by the continued growth of market acceptance in our sedan variants, Quattroporte and Ghibli, while the market remains in strong demand for the exclusive and luxury vehicle choices.

The opening of the 9,000 plus square feet Maserati Kowloon Bay Flagship Showroom enabled comprehensive brand coverage and connectivity in the territory with state-of-the-art sales facilities. With full-range model displays and pre-owned selections, the new flagship showroom offered a premium shopping experience for our customers and demonstrated the latest brand attributes as well as generated about a mid-double digit increase of overall showroom traffic in the two Maserati sales locations since the opening of the Maserati Kowloon Bay Flagship Showroom in June 2015.

In marketing aspect, Maserati generated substantial brand exposure through the participation in the 62nd Macau Grand Prix as the official event car sponsor. The sponsorship will be continued in 2016 to strengthen our market presence and to demonstrate our core brand values of racing and performance.

After-sales Service

With 11 months of full operation due to the refurbishment of our Shatin Service Centre and the establishment of a dedicated Body and Paint Centre in Sheung Shui, overall After-sales Service revenue in 2015 was still maintained at a similar level to that of 2014.

The strategic reconfiguration of after-sales operation has resulted in a year-on-year increase in revenue from higher margin services, such as collision repair, spare parts sales and an approximately 6.3 percentage points increase in overall profit margin. This focus on balanced income stream will help mitigate the historical cyclicity commonly associated with automotive retail business.

In addition to the positive financial impact, we have been able to further reduce Ferrari and Maserati average repair time by approximately half. Our average service appointment waiting time has also been able to meet the regional industry standard.

OUTLOOK

Looking ahead, with the new SUV Levante in the pipeline, Maserati will be opening up to completely new customer segments. We expect that unit sales will be stimulated and will continue to grow in the next couple of years. Preparations are underway for the opening of new Maserati sales and after-sales facilities in Macau with official brand presence which will pave the way for our further growth.

For Ferrari business, we brought the new generation of V8 Sports Car 488GTB to Hong Kong in August 2015 and with the strong demand on this new model, we are certain that the deliveries of 488GTB will boost our unit sales to a new level in 2016.

Due to the variance in brand DNA, market and customer segment of Ferrari and Maserati, the Group will continue to focus on brand separation in after-sales operation, which means dedicated resources and personnel are specifically assigned for each prestige brand we represent. This separation will enable us to positively impact customer loyalty, service car parc penetration and overall customer satisfaction.

For our pre-delivery inspection operation in mainland China, in spite of trepidation in economic environment for the immediate future, we are projecting an increase in unit deliveries due to new model introduction.

FINANCIAL REVIEW

CAR DIVISION

Revenue

For the year ended 31 December 2015, the Car division's revenue decreased by 11.0% to HK\$955.6 million (2014: HK\$1,073.4 million) as mainly affected by the closure of the Nanjing dealership business in the second half of 2014.

In mainland China, excluding the impact of closure of Nanjing operation, the revenue generated from our pre-delivery inspection and warranty services in Shanghai increased two-fold to HK\$103.2 million driven by the introduction of the warranty services.

In Hong Kong, against the challenging business environment in 2015, our revenue from this location maintained at HK\$852.4 million (2014: HK\$852.9 million) including the additional revenue contribution from pre-delivery inspection service business for the Audi brand that commenced on 1 September 2015.

Cost of Sales and Gross Profit

Gross profit margin in 2015 recorded an increase from 21.0% in 2014 to 24.6% in 2015. Accordingly, our gross profit was increased from HK\$225.8 million in 2014 to HK\$235.3 million in 2015. The increase of HK\$9.5 million was mainly contributed by our operation in Shanghai.

Other Income

For the year ended 31 December 2015, other income amounted to HK\$21.8 million (2014: HK\$38.6 million). The net decrease of HK\$16.8 million was mainly caused by the decrease in subsidies income from our suppliers following the closure of the Nanjing dealership business in the second half of 2014.

Other Gains and Losses

Other gains and losses amounted to a net loss of HK\$8.0 million (2014: loss of HK\$2.6 million) which included a net foreign exchange loss of HK\$7.2 million and an impairment of trade and other receivables of HK\$0.8 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2015 aggregated to HK\$216.9 million (2014: HK\$225.5 million), which accounted for 22.7% (2014: 21.0%) of revenue. The net decrease of HK\$8.6 million was mainly due to a decrease in staff related cost resulting from the absence of a one-off staff redundancy cost for the closure of our Nanjing operations in 2014, but partially offset by an increase in rental cost including additional rental cost for the newly opened Maserati Showroom in Kowloon Bay.

Finance Costs

Finance costs in 2015 were reduced by 50.8% to HK\$2.9 million (2014: HK\$5.9 million).

FINANCIAL INVESTMENTS AND SERVICES DIVISION

Operating Results

For the year ended 31 December 2015, the revenue of Financial Investments and Services division decreased to HK\$17.5 million (2014: HK\$20.1 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit decreased by 6.8% to HK\$17.9 million (2014: HK\$19.2 million).

During the year, the Group subscribed to convertible bonds with a coupon rate of 5% per annum payable on the date of redemption and in an aggregate principal amount of HK\$25 million. The Group recognised a fair value gain of the derivative component of investments in convertible bonds of HK\$0.8 million and effective interest income of HK\$0.8 million in 2015.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders of the Company for the year was HK\$27.8 million, which increased by 0.7% as compared with HK\$27.6 million in 2014. The improved Group's performance was the result of an improvement in gross profit margin in the Car division and the full year impact of 100% profit contribution from our Car division after the completion of the acquisition of its remaining interest from a non-wholly owned subsidiary in August 2014.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

In 2015, the Group financed its operations primarily through cash from the Group's operations. The Group invested HK\$37.2 million in its capital expenditure which was mainly for the new Maserati mono brand showroom in Kowloon Bay, enhancement of the after-sales facilities and purchase of demo cars for sales display purpose.

The Group also made a subscription of convertible bonds of HK\$25 million with a coupon rate of 5% per annum under Financial Investments and Services division.

Cash and Cash Equivalents

As at 31 December 2015, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$267.3 million as compared with HK\$328.8 million as at 31 December 2014, which were denominated in Hong Kong dollars (as to 59%), U.S. dollars (as to 24%) and Renminbi (as to 17%).

Bank and Other Borrowings

As at 31 December 2015, the Group had bank and other borrowings totalling HK\$112.1 million (2014: HK\$92.6 million), of which HK\$6.6 million were repayable more than one year. Net cash position as at 31 December 2015 was HK\$155.2 million (2014: HK\$236.2 million).

Loan Receivables

During the year, the Group had engaged in Financial Investments and Services Business, which included the provision of loan financing. As at 31 December 2015, the Group had outstanding secured loans lent to customers totalling HK\$76 million (31 December 2014: HK\$79.3 million), which carry an interest rate of 8.0% per annum and were repayable within 12 months.

PLEDGE OF ASSETS

As at 31 December 2015, certain of the Group's properties, bank deposits, inventories totalling HK\$119.2 million (2014: HK\$119.8 million) were pledged as securities for relevant bank loans and other bank facilities granted.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2015, the Group had total capital commitments (authorised but not contracted for) of HK\$16.4 million (2014: HK\$31.9 million), primarily related to registration of demo cars for sales display purpose in showrooms. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2015, the Group had no material contingent liabilities.

HUMAN RESOURCES

The Group employed a total of 213 employees as at 31 December 2015. The Group believes that people are the most valuable asset for supporting its business growth. To this end, competitive remuneration packages and benefits programs as well as learning and development opportunities are provided to attract, motivate and retain talented employees.

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2015, 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 Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the year ended 31 December 2015, except Code Provision A.2.1 of the CG 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.

The Company deviates from this provision in that Mr. CHONG Tin Lung Benny is the Executive Chairman and the Chief Executive Officer of the Company. Mr. Chong has extensive experience in corporate management and securities investments and is responsible for the overall corporate strategies, planning and business development of the Group. The Board considers that the vesting of two roles in the same person provides our Group with strong and consistent leadership and facilitates the implementation and execution of our Group’s business strategy. The Company shall nevertheless review the structure from time to time in light of the prevailing circumstances.

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

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as standard for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors by the Company, during the year ended 31 December 2015, the Directors have confirmed in writing that they complied with the standards set out in the Model Code.

AUDIT COMMITTEE REVIEW

The audit committee of the Company has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2015 including the accounting principles and practices adopted by the Group, and discussed the internal control and financial reporting matters during the review.

ANNUAL GENERAL MEETING (“AGM”)

The AGM of the Company will be held on 20 May 2016. For details of the AGM, please refer to the notice of AGM, which will be despatched to the Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk under the “Latest Listed Company Information” and the website of the Company at www.autoitalia.com.hk. The annual report will be despatched to the Shareholders and published on the above websites in due course.

By Order of the Board
Auto Italia Holdings Limited
CHONG Tin Lung Benny
Executive Chairman and Chief Executive Officer

Hong Kong, 22 March 2016

As at the date of this announcement, the Board comprises Mr. CHONG Tin Lung Benny (Executive Chairman and Chief Executive Officer) and Mr. LAM Chi Yan, both of whom are executive Directors; and Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie (formerly known as KONG To Yeung Frankie) and Mr. LEE Ben Tiong Leong, all of whom are independent non-executive Directors.