AUTO ITALIA

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 2016

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 2016 as follows:-

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 *HK$'000*
Revenue	*4*	**742,484**	973,140
Cost of sales		**(552,936)**	(720,329)
Gross profit		**189,548**	252,811
Other income	*5*	**26,302**	22,710
Other gains and losses	*6*	**(8,424)**	(8,318)
Selling and distribution costs		**(136,726)**	(143,081)
Administrative expenses		**(74,447)**	(83,725)
Finance costs	*7*	**(3,020)**	(3,038)
(Loss) profit before taxation		**(6,767)**	37,359
Taxation	*8*	**(5,608)**	(9,603)
(Loss) profit for the year	*9*	**(12,375)**	27,756
(Loss) earnings per share	*10*		
– Basic		**(HK0.24 cent)**	HK0.53 cent
– Diluted		**(HK0.24 cent)**	HK0.53 cent

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
(Loss) profit for the year	**(12,375)**	27,756
Other comprehensive income:		
Item that will not be reclassified to profit or loss:		
Gain on property revaluation upon transfer to investment properties	**3,626**	–
Item that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation of foreign operations	**232**	835
Other comprehensive income for the year	**3,858**	835
Total comprehensive (expense) income for the year attributable to owners of the Company	**(8,517)**	28,591

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Investment properties	11	**47,700**	–
Property, plant and equipment		**53,852**	108,403
Goodwill		**2,480**	2,480
Rental deposits		**16,314**	14,094
Investment in preference shares	12	**37,279**	–
		157,625	124,977
Current assets			
Inventories		**225,557**	200,457
Tax recoverables		**–**	1,956
Trade and other receivables	13	**93,401**	78,450
Loan receivables	14	**57,000**	76,000
Investments in convertible bonds	15	**–**	26,772
Pledged bank deposits		**46,828**	59,655
Bank balances and cash		**248,839**	207,611
		671,625	650,901
Current liabilities			
Trade and other payables	16	**331,264**	252,943
Tax payable		**7,483**	7,695
Bank and other borrowings	17	**85,675**	105,532
Obligations under finance leases		**–**	74
		424,422	366,244
Net current assets		**247,203**	284,657
Total assets less current liabilities		**404,828**	409,634
Capital and reserves			
Share capital		**104,391**	104,079
Reserves		**294,365**	298,221
Total equity		**398,756**	402,300
Non-current liabilities			
Bank and other borrowings	17	**4,905**	6,610
Deferred taxation		**1,167**	724
		6,072	7,334
		404,828	409,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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. During current and prior year, 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 AMENDMENTS TO 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 HKFRSs that are mandatorily effective for the current year

Amendments to HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

Except as described below, the application of these 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 financial statements.

Amendments to HKAS 1 "Disclosure initiative"

The Group has applied the amendments to HKAS 1 "Disclosure initiative" for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. Hence, the grouping and ordering of certain notes has been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Other than the above presentation changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these financial statements.

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 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Apply HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[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 2017.
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirement for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group:

- all recognised financial assets that are within the scope of HKFRS 9 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 fair value through other comprehensive income. 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.

- 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's investment in preference shares including those currently stated at cost less impairment, will be measured as fair value through profit or loss. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods based on the existing business model of the Group.

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group as lessee has non-cancellable operating lease commitments of HK$109,218,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company do not anticipate that the application of the other new and amendments to 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 and provision for financing and corporate finance services; and

(iii) Property investment.

Segment profit/loss 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 2016

	Cars	Financial investments and services	Property investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE				
Group's revenue	**735,910**	**5,514**	**1,060**	**742,484**
SEGMENT RESULTS				
Segment (loss) profit	**(5,197)**	**4,264**	**1,541**	**608**
Interest income				**424**
Unallocated corporate expenses				**(4,779)**
Finance costs				**(3,020)**
Loss before taxation				**(6,767)**

For the year ended 31 December 2015

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

Segment assets and liabilities

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

At 31 December 2016

	Cars	**Financial investments and services**	**Property investment**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Assets				
Segment assets	**390,433**	**94,575**	**48,129**	**533,137**
Bank balances and cash				**248,839**
Pledged bank deposits				**46,828**
Unallocated corporate assets				**446**
Consolidated assets				**829,250**
Liabilities				
Segment liabilities	**325,230**	**82**	**616**	**325,928**
Bank and other borrowings				**90,580**
Deferred taxation				**1,167**
Tax payable				**7,483**
Unallocated corporate liabilities				**5,336**
Consolidated liabilities				**430,494**

At 31 December 2015

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

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, deferred taxation, tax payable, and bank and other borrowings.

Other segment information

For the year ended 31 December 2016

	Cars	**Financial investments and services**	**Property investment**	**Unallocated**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Amounts included in the measure of segment result or segment assets					
Addition of property, plant and equipment	**13,276**	**–**	**–**	**–**	**13,276**
Depreciation of property, plant and equipment	**(22,041)**	**–**	**–**	**(279)**	**(22,320)**
Gain on disposal of property, plant and equipment	**414**	**–**	**–**	**–**	**414**
Fair value gain on investment properties	**–**	**–**	**800**	**–**	**800**
Reversal of allowance for inventories – Hong Kong	**2,729**	**–**	**–**	**–**	**2,729**
Loss on fair value change of derivative component of investments in convertible bonds	**–**	**(5,282)**	**–**	**–**	**(5,282)**

For the year ended 31 December 2015

	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 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
Gain of fair value change of derivative component of investments in convertible bonds	–	818	–	–	818

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:

	2016 ***HK$'000***	2015 *HK$'000*
Hong Kong	**664,678**	869,971
Mainland China	**77,806**	103,169
	742,484	973,140

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

	2016 ***HK$'000***	2015 *HK$'000*
Hong Kong	**117,119**	124,104
Mainland China	**3,227**	873
	120,346	124,977

4. REVENUE

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

	2016	2015
	HK$'000	*HK$'000*
Sales of goods to customers, less returns and discounts	**530,331**	730,404
Maintenance service income	**205,579**	225,211
Financial service income	**–**	5,600
Interest income	**5,514**	11,925
Rental income	**1,060**	–
	742,484	973,140

5. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Commission income	**6,398**	5,668
Interest income	**424**	661
Effective interest income from investments in convertible bonds *(note 15)*	**4,760**	783
Dividend income	**–**	8,473
Forfeited deposits *(Note)*	**6,158**	–
Others	**8,562**	7,125
	26,302	22,710

Note: Forfeited deposits represent deposits paid by customers for ordering cars which were forfeited in accordance with the terms as set out in respective contracts.

6. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Reversal of (impairment) losses on trade and other receivables, net	**628**	(801)
Net foreign exchange losses	**(4,984)**	(7,169)
Gain (loss) on disposal of property, plant and equipment	**414**	(1,166)
(Loss) gain on fair value change of derivative component of investments in convertible bonds *(note 15)*	**(5,282)**	818
Fair value gain on investment properties	**800**	–
	(8,424)	(8,318)

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interests on bank and other borrowings	**3,014**	3,027
Interest on finance leases	**6**	11
	3,020	3,038

8. TAXATION

	2016	2015
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**259**	4,475
Other jurisdictions	**4,710**	4,358
	4,969	8,833
Underprovision in prior years		
Other jurisdictions	**196**	46
Deferred tax		
Current year	**443**	724
	5,608	9,603

9. (LOSS) PROFIT FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,480**	1,500
Depreciation of property, plant and equipment	**22,320**	21,910
Staff costs:		
Directors' emoluments	**6,682**	10,139
Salaries and allowances	**65,931**	67,099
Share-based payments	**710**	7,700
Retirement benefits scheme contributions	**2,455**	2,488
	75,778	87,426
Cost of inventories recognised as expense	**519,971**	687,653
Reversal of allowance for inventories (included in cost of inventories) *(Note)*	**(2,729)**	(2,941)
Operating lease payments in respect of rented properties	**63,041**	60,523
Gross rental income from investment properties	**1,060**	–

Note: The reversal of allowance for inventories for both years is resulted from the subsequent sale of the relevant inventories.

10. (LOSS) EARNINGS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
(Loss) profit for the year for the purpose of basic and diluted (loss) earnings per share	**(12,375)**	27,756

	2016	2015
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	**5,215,792,775**	5,191,504,949
Effect of dilutive potential ordinary shares		
Share options	**–**	78,339,718
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**5,215,792,775**	5,269,844,667

For the year ended 31 December 2016, the computation of diluted loss per share does not assume the exercise of the share options granted since their exercise would result in a decrease in loss per share.

11. INVESTMENT PROPERTIES

	HK$'000
At 1 January 2015 and 31 December 2015	–
Transfer from property, plant and equipment	46,800
Additions	100
Fair value gain on investment properties	800
At 31 December 2016	47,700

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes were measured using the fair value model and were classified and accounted for as investment properties. The above investment properties comprised industrial buildings and carparks located in Hong Kong, held under medium-term leases.

In April 2016, properties with carrying value of approximately HK$43,174,000 was transferred from property, plant and equipment in view of a change of use evidenced by end of owner-occupation. The investment properties were fair valued by an independent qualified professional valuer at HK$46,800,000 at the date of transfer and a gain of approximately HK$3,626,000 was recognised in other comprehensive income.

In determining the fair value of the relevant properties, the accounting officers will work closely with the independent qualified valuer to determine the appropriate valuation techniques and inputs for fair value measurements.

The Group engages third party qualified valuer to perform the valuation. The accounting officers work closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model. The accounting officers report the findings to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the investment properties.

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

The fair value of the investment properties at the date of transfer and as at 31 December 2016 was under Level 3 of fair value hierarchy and based on the valuer's valuation taking into account the recent transaction price and adjusted for the relevant circumstances. The key input was the adjustment to the recent transaction price of 9.03%. A decrease in this adjustment would result in an increase in fair value measurement of the investment properties and vice versa. There were no transfers into or out of Level 3 during the year.

The investment properties are pledged to secure certain bank borrowings granted to the Group.

12. INVESTMENT IN PREFERENCE SHARES

On 1 August 2016, the Group entered into an agreement (the "Agreement") with an independent third party (the "Third Party") to acquire the Third Party's 15% beneficial interests in its investment in preference shares (the "Investment") of a private company (the "Investee") at a price of US$4,800,000 (equivalent to approximately HK$37,279,000), representing less than 1% of the preference shares of the Investee.

The Investment could be redeemed at the discretion of the Third Party from and after the fifth anniversary of issue date and redemption price includes dividend declared but unpaid, the purchase price of shares and interest of 8% per annum. The Investment also contains conversion options to convert the shares into ordinary shares of the Investee. Pursuant to the Agreement, the Investment could be assigned or transferred on mutual agreement with the Third Party.

The Investment is initially measured at transaction price, which is also the fair value resulted from arm's length market transaction. At initial recognition, the entire hybrid instrument is treated as financial instrument held for trading as the management of the Company considers the fair value of the conversion option which will be settled by unquoted instrument cannot be reliably measured. The Investment is subsequently measured at cost plus accrued interest less impairment as the conversion option of the hybrid instrument is sufficiently significant to preclude the Group from obtaining a reliable estimate of the entire instrument.

The management of the Company is not expecting the Investment to be recovered by redemption or conversion to ordinary shares within one year from the end of the reporting period, and is accordingly classified as non-current.

13. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**35,997**	49,809
Less: Allowance for doubtful debts	**–**	(641)
	35,997	49,168
Purchase deposits	**43,837**	18,388
Utility and rental deposits	**2,246**	2,036
Prepayments and other receivables	**11,321**	8,858
	93,401	78,450

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:

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**18,548**	35,428
31 to 60 days	**14,452**	10,349
61 to 90 days	**1,665**	419
91 days to 1 year	**1,210**	2,878
Over 1 year	**122**	94
	35,997	49,168

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

At 31 December 2016, included in the Group's trade receivable balances are receivables with aggregate carrying amounts of HK$1,332,000 (2015: HK$2,972,000) 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:

	2016	2015
	HK$'000	*HK$'000*
91 days to 1 year	**1,210**	2,878
Over 1 year	**122**	94
	1,332	2,972

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full impairment on these receivables and considered that they are generally not recoverable.

14. LOAN RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Fixed-rate loans	**57,000**	76,000

The outstanding loan receivables are due from independent third parties and carry interest rate of 8% per annum (2015: 8% per annum). The loans amounts of HK$26,000,000 and HK$31,000,000 were renewed and will be repaid in November 2017 and December 2017 (2015: HK$38,000,000 and HK$38,000,000 and repayable in November 2016 and December 2016) respectively. As at 31 December 2016, the balances were secured by listed securities in Hong Kong with fair values of HK$96,713,000 and HK$67,483,000 (2015: HK$61,600,000 and HK$61,600,000) respectively.

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

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

The loan receivable of HK$31,000,000 is subsequently settled in February 2017.

15. INVESTMENTS IN CONVERTIBLE BONDS

On 12 November 2015, the Company subscribed convertible bonds ("CBs") issued by New Sports Group Limited ("New Sports Group") with coupon rate of 5% per annum payable on the date of redemption and in an aggregate principal amount of HK$25,000,000, with a maturity date of first anniversary of the issue date ("maturity date") and are denominated in HK$. The CBs entitle the bondholders to convert them into shares of New Sports Group at any time commencing from the 3 months after this 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 *(Note a)*	0.084%	0.084%
Expected volatility *(Note b)*	54.678%	54.206%
Expected dividend yield *(Note c)*	0.000%	0.000%
Option life	0.984 year	0.867 year

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.

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.

The Group did not exercise the conversion right and the convertible bonds were fully repaid during the year ended 31 December 2016.

During the year ended 31 December 2016, the Group recognised fair value loss on the derivative component of investments in convertible bonds of HK$5,282,000 (2015: gain of HK$818,000) in other gains or losses and effective interest income of HK$4,760,000 (2015: HK$783,000) in other income respectively.

16. TRADE AND OTHER PAYABLES

Trade and other payables comprise amounts outstanding for trade purposes and daily operating costs. The average credit period on purchase of goods is 30 – 90 days. The following is an aged analysis of trade and bills payables presented based on invoice date at the end of the reporting period.

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**41,142**	14,431
31 to 60 days	**1,173**	5,225
61 to 90 days	**38**	120
91 days to 1 year	**5,801**	949
Over 1 year	**530**	786
Trade and bills payables	**48,684**	21,511
Deposits received from customers	**234,505**	171,953
Advance payments from customers	**4,215**	8,040
Accrued charges	**17,307**	17,795
Other payables	**26,553**	33,644
	331,264	252,943

17. BANK AND OTHER BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Bank borrowings	**6,613**	8,295
Trust receipt loans	**53,156**	87,858
Other borrowings from restricted licensed banks	**20,811**	15,989
Other borrowings from a financial institution	**10,000**	–
	90,580	112,142
Secured	**90,580**	112,142
Carrying amount repayable:		
On demand or within one year	**85,675**	105,532
More than one year, but not exceeding two years	**1,750**	1,718
More than two years, but not more than five years	**3,155**	4,892
	90,580	112,142
Less: Amounts due within one year shown under current liabilities	**(85,675)**	(105,532)
Amounts shown under non-current liabilities	**4,905**	6,610

As at 31 December 2016, included in the carrying amount repayable within one year is a balance of HK$83,967,000 (2015: HK$103,846,000) that contains a repayable on demand clause.

As at 31 December 2016, the bank borrowings and other borrowings from restricted licensed banks are variable-rate borrowings which bear average effective interest rate (which is also equal to contracted interest rate) at 3.96% per annum (2015: 3.83% per annum). The other borrowings from a financial institution carry fixed interest rate of 20% per annum with maturity in January 2017.

The other borrowings from a financial institution of HK$10,000,000 is fully repaid by the Group subsequently in January 2017.

DIVIDEND

No dividend was paid or proposed during year ended 31 December 2016 (2015: Nil), nor has any dividend been proposed since the end of the reporting period (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Ferrari

2016 was a disappointment for the Ferrari business. The overall economy in Hong Kong was stagnant while the automotive segment experienced a decline. Manufacturers are adapting aggressive pricing strategy featuring weekly events with special offers across all brand and models.

Delivery of new Ferrari recorded an annual drop. Shipment of the new 488 continued to be erratic due to strong demand of other core markets. The launch of the California T H&S edition midyear garnered rave reviews by the local media and from potential customers who test drove the vehicle. But with the more aggressive pricing, this model failed to deliver the market response in new order intake as projected. The popular 488 Coupe/Spider models were also affected by Ferrari revised pricing. Market competitors of the 488 model were pursuing very aggressive pricing strategy and offered much shorter delivery time. This offer causes our potential customers to further reconsider the brand.

With the F-12 model coming at the end of the model cycle, interests shifted to the TDF model with limited demand by the factory allocation to qualified buyers. Delivery of this model started in the third quarter of 2016 and projected to complete in 2017. Deliveries of LaFerrari were all completed within this year and the new roadster model will be started in 2017.

The GTC4 Lusso launched in the third quarter of 2016 and was supported by various marketing events. Market response was positive but with no demonstrator till 2017, new orders taken during the launch were disappointing.

The pre-owned business experienced a slower sale with the overall slowdown in the automotive market affecting both new and pre-owned automobiles.

Visitors' number to the Repulse Bay showroom remained steady as viewings of both new and pre-owned automobiles are now under one premium facility.

On 29 November 2016, the Group received an advice from Ferrari to terminate the import and distribution rights of "Ferrari" cars in Hong Kong and Macau with effect from 27 May 2017. On 10 March 2017, the Group and Ferrari entered into a term sheet concerning the transitional arrangements of Ferrari vehicle orders and aftersales services for the period from 27 May 2017 until 30 September 2017. It is contemplated that a legally binding definitive agreement for the transitional arrangements will be entered into upon further discussions and negotiations between the Group and Ferrari.

Maserati

Under global economy downturn and volatile market, Hong Kong's retail market continuing a sustained decline. For 2016 as a whole, both the value of total retail sales of luxury goods and sales of luxury car segment in Hong Kong decreased by double-digit percentage compared with 2015. Affected by the market circumstances, Maserati recorded a drop in number of car sold.

Launch of the new SUV Levante in September 2016 successfully aroused market awareness and received good responses. However, the production delay and shipment suspension from factory resulted in the decrease in sales number. With the first lot of delivery in the first quarter of 2017, more Levante will hit on road and it is believed that the presence will enhance the brand recognition and product awareness and drive up the sales momentum while contributing a substantial increase on the overall sales volume in the coming year.

For marketing, Maserati focused on client acquisition and adopted direct sales approaches to reach out different target groups, including test drive events for professional associations, entrepreneurs and luxury residential areas and car shows in high-end shopping malls, creating more platforms to step out from the showrooms for sale opportunities and to directly connect with potential customers. Collaborations with luxury brands also proved to create brand synergy and attract potential customers from luxury segment. Maserati also continued to reinforce brand presence by digital marketing in cost effective approach. This not only allowed us to manage flexible and vibrant creatives but can also enhance the brand image in more dynamic approaches and capture extensive database for different sales campaigns. Regarding on Customer Relationship Management, customer satisfaction remained highly positive reflecting an overall high quality service standard in terms of sales facilities and sales process in the Group.

After-sales Services

The overall revenue for after-sales services in Hong Kong recorded an increase in 2016. In addition to positive sales results, our focus on business operational standards also produced substantial improvements in spare parts inventory control, CSI (Customer Satisfaction Index) and Manufacturer KPI (Key Performance Index). In recognition of exceeding manufacturer KPI requirements, the Maserati After-sales team received the award of "Best Performer of After Sales 2016" in Asia Pacific region (SEAP) by Maserati S.p.A.

In spite of weak economy overall in automotive retail segment, our Pre-Delivery Inspection ("PDI") operation in Mainland China recorded an increase in volume output in units deliver based on strong demands from Mainland China and the long waited introduction of Maserati sports utility vehicle, Levante.

OUTLOOK

Looking forward to 2017, Maserati new models are in the pipeline – Quattroporte GTS GranSport, the flagship sedan with V8 engine will be launched in the first quarter while limited edition of GranTurismo will be arriving in Hong Kong in the first half of 2017. With the expanded profile of Maserati, we will sustainably strengthening our competitiveness and seize the opportunity for further improvement.

With the imminent conclusion of the Ferrari franchise, the Group is actively evaluating automotive market opportunities in both Mainland China and Hong Kong. We are confident that with Maserati serving as the bedrock franchise, decision will be made in merits and not in haste.

FINANCIAL REVIEW

CAR DIVISION

Revenue

The business environment remained challenging in 2016 and had adversely affected the performance of our operations. The Car Division's revenue decreased by 23% to HK$736 million (2015: HK$955.6 million).

In Mainland China, the revenue generated from our pre-delivery inspection and warranty services in Shanghai decreased by 24.6% to HK$77.8 million (2015: HK$103.2 million) caused by the decrease of the warranty services income and the adverse exchange variations of Renminbi against Hong Kong dollars during 2016.

In Hong Kong, our business was adversely affected by the subdued market sentiment on the luxury products market. The overall revenue from this location recorded a decrease of 22.8% to HK$658.2 million (2015: HK$852.4 million) and recorded a drop in overall car unit sales. Nevertheless, with the additional revenue contribution from the pre-delivery inspection service for the Audi brand, our maintenance service income managed to record an increase of 4.7% to HK$127.8 million (2015: HK$122 million).

Cost of Sales and Gross Profit

Gross profit margin in 2016 recorded an increase from 24.6% in 2015 to 24.9% in 2016. Our gross profit decreased from HK$235.3 million in 2015 to HK$183 million owing to the decrease in overall car unit sales in Hong Kong operation.

Other Income

For the year ended 31 December 2016, other income amounted to HK$21.5 million (2015: HK$21.8 million). The net decrease of HK$0.3 million was the net impact from the absence of dividend income (2015: HK$8.5 million) and the forfeiture of customer deposit of HK$6.2 million (2015: Nil).

Other Gains and Losses

Other gains and losses amounted to a net loss of HK$3.9 million (2015: loss of HK$8.0 million) which included net foreign exchange loss of HK$4.9 million and gain on disposal of property, plant and equipment of HK$0.4 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2016 aggregated to HK$205.7 million (2015: HK$216.9 million), which accounted for 28% (2015: 22.7%) of revenue. The net decrease of HK$11.2 million was mainly due to a decrease in staff related cost resulting from the Group cost optimization and restructuring plan in second quarter of 2016 and decrease in marketing expenses but partially offset by an increase in rental cost and depreciation that included the full year impact of the Maserati Showroom in Kowloon Bay which opened in June 2015.

Finance Costs

Finance costs in 2016 were reduced by 3.4% to HK$2.8 million (2015: HK$2.9 million).

FINANCIAL INVESTMENTS AND SERVICES AND PROPERTY INVESTMENT DIVISIONS

Operating Results

For the year ended 31 December 2016, the revenue of Financial Investments and Services division decreased to HK$5.5 million (2015: HK$17.5 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit decreased by HK$13.6 million to HK$4.3 million (2015: HK$17.9 million).

During the year, the Group has redeemed the convertible bonds of an aggregate principal amount of HK$25 million and recognised an interest income of HK$4.8 million and fair value loss on the derivative component of investments in convertible bonds of HK$5.3 million.

On 1 August 2016, the Group entered into an agreement (the "Agreement") with an independent third party (the "Third Party") to acquire the Third Party's 15% beneficial interests in its investment in preference shares (the "Investment") of a private company (the "Investee") at a price of US$4.8 million (equivalent to approximately HK$37.3 million), representing less than 1% of the preference shares of the Investee.

The Investment could be redeemed at the discretion of the Third Party from and after the fifth anniversary of issue date and redemption price includes dividend declared but unpaid, the purchase price of shares and interest of 8% per annum. The Investment also contains conversion options to convert the shares into ordinary shares of the Investee. Pursuant to the Agreement, the Investment could be assigned or transferred on mutual agreement with the Third Party.

Furthermore, the Group recorded a rental income of HK$1 million for leasing the property of the Group to a third party. The tenancy agreement was commenced in June 2016.

LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders of the Company for the year was HK$12.4 million (2015: profit of HK$27.8 million). Such loss is primarily attributable to the decline in revenue of the Car Division and Financial Investments and Services Division due to uncertain economic environment and subdued market sentiment.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalents

As at 31 December 2016, the Group had cash and cash equivalents (including pledged bank deposits) of HK$295.7 million as compared with HK$267.3 million as at 31 December 2015, which were denominated in Hong Kong dollars (as to 70%), Renminbi (as to 17%) and U.S. dollars (as to 12%).

Bank and Other Borrowings

As at 31 December 2016, the Group had bank and other borrowings totalling HK$90.6 million (2015: HK$112.1 million), of which HK$4.9 million were repayable more than one year. Net cash position as at 31 December 2016 was HK$205 million (2015: HK$155.2 million), no gearing ratio is presented.

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 2016, the Group had outstanding secured loans lent to customers totalling HK$57 million (31 December 2015: HK$76 million), which carry an interest rate of 8.0% per annum and were repayable within 12 months. One of the customers had subsequently fully repaid the loan of HK$31 million to the Group in February 2017.

PLEDGE OF ASSETS

As at 31 December 2016, certain of the Group's properties, bank deposits, inventories totalling HK$136.3 million (2015: HK$119.2 million) were pledged as securities for relevant bank loans and other bank facilities granted.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2016, the Group had total capital commitments of HK$11.4 million (2015: HK$16.4 million), of which contracted for of HK$5.6 million (2015: Nil) and authorised but not contracted for of HK$5.8 million (2015: HK$16.4 million), primarily related to addition of production lines and renovation in Shanghai PDI operation. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2016, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

On 10 March 2017, the Group and Ferrari entered into a term sheet concerning the transitional arrangements of Ferrari vehicle orders and aftersales services for the period from 27 May 2017 until 30 September 2017. It is contemplated that a legally binding definitive agreement for the transitional arrangements will be entered into upon further discussions and negotiations between the Group and Ferrari.

HUMAN RESOURCES

The Group employed a total of 222 employees as at 31 December 2016. 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 2016, the Company and its subsidiaries have 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 2016, 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.

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 2016, the Directors have confirmed in writing that they complied with the standards set out in the Model Code.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016 including the accounting principles and practices adopted by the Group, and discussed the risk managements, internal control and financial reporting matters during the review.

ANNUAL GENERAL MEETING ("AGM")

The AGM of the Company will be held on 25 May 2017. For details of the AGM, please refer to the notice of AGM, which will be despatched to the shareholders of the Company in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited ("HKEx") (www.hkexnews.hk) and the Company (www.autoitalia.com.hk) respectively. The annual report of the Company for the year ended 31 December 2016 will be dispatched to the Shareholders and published on the websites of HKEx and the Company in due course.

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

Hong Kong, 28 March 2017

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 and Mr. LEE Ben Tiong Leong, all of whom are independent non-executive Directors.