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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 2017

The board of directors (the “**Board**” or “**Directors**”) of Auto Italia Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016 as follows:-

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	4	792,873	742,484
Cost of sales		(548,588)	(552,936)
Gross profit		244,285	189,548
Other income	5	20,501	26,302
Other gains and losses	6	13,089	(8,424)
Selling and distribution costs		(108,587)	(136,726)
Administrative expenses		(80,592)	(74,447)
Finance costs	7	(2,004)	(3,020)
Share of result of an associate		4,822	–
Profit (loss) before taxation		91,514	(6,767)
Taxation	8	(5,642)	(5,608)
Profit (loss) for the year	9	85,872	(12,375)
Earnings (loss) per share	10		
– Basic		HK1.65 cent	(HK0.24 cent)
– Diluted		HK1.65 cent	(HK0.24 cent)

* *For identification purpose only*

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

For the year ended 31 December 2017

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the year	85,872	(12,375)
Other comprehensive income:		
<i>Item that will not be reclassified to profit or loss:</i>		
Gain on property revaluation upon transfer to investment properties	–	3,626
<i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations and the associate	<u>2,995</u>	<u>232</u>
Other comprehensive income for the year	<u>2,995</u>	<u>3,858</u>
Total comprehensive income (expense) for the year attributable to owners of the Company	<u>88,867</u>	<u>(8,517)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Investment properties	<i>11</i>	55,300	47,700
Property, plant and equipment		25,040	53,852
Goodwill		2,480	2,480
Interest in an associate		62,089	–
Rental deposits		9,450	16,314
Investment in preference shares	<i>12</i>	–	37,279
		154,359	157,625
Current assets			
Inventories		151,962	225,557
Trade and other receivables	<i>13</i>	70,997	93,401
Loan receivables	<i>14</i>	35,220	57,000
Pledged bank deposits		47,024	46,828
Bank balances and cash		266,181	248,839
		571,384	671,625
Current liabilities			
Trade and other payables	<i>15</i>	121,094	331,264
Tax payable		6,205	7,483
Bank and other borrowings	<i>16</i>	103,005	85,675
		230,304	424,422
Net current assets		341,080	247,203
Total assets less current liabilities		495,439	404,828
Capital and reserves			
Share capital		104,391	104,391
Reserves		386,294	294,365
Total equity		490,685	398,756
Non-current liabilities			
Bank and other borrowings	<i>16</i>	3,161	4,905
Deferred taxation		1,593	1,167
		4,754	6,072
		495,439	404,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of the registered office and principal place of business of the Company is disclosed in the “Corporate Information” section of the annual report.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the import, marketing and distribution, and provision of after-sales service of Italian branded cars in Hong Kong and Macau, the provision of pre-delivery inspection service in Shanghai, the People’s Republic of China (“**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 HKFRSs that are mandatorily effective for the current year

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 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 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following 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.

A reconciliation between the opening and closing balances of these items is provided in the Group's consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on 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 after-sales and pre-delivery inspection services;
- (ii) Financial investments and services – Investments in securities and provision for financing and corporate finance services; and
- (iii) Property investment.

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

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 2017

	Cars <i>HK\$'000</i>	Financial investments and services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE				
Group's revenue	<u>787,418</u>	<u>3,639</u>	<u>1,816</u>	<u>792,873</u>
SEGMENT RESULTS				
Segment profit	<u>78,009</u>	<u>8,705</u>	<u>9,353</u>	<u>96,067</u>
Share of result of an associate				4,822
Bank interest income				294
Unallocated corporate expenses				(7,665)
Finance costs				<u>(2,004)</u>
Profit before taxation				<u>91,514</u>

For the year ended 31 December 2016

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

4. REVENUE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Sales of goods to customers, less returns and discounts	525,171	530,331
Maintenance service income	262,247	205,579
Interest income from loan receivables	3,639	5,514
Rental income	1,816	1,060
	<u>792,873</u>	<u>742,484</u>

5. OTHER INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Commission income	6,249	6,398
Bank interest income	294	424
Effective interest income from investments in convertible bonds	–	4,760
Forfeited deposits (<i>Note</i>)	450	6,158
Others	13,508	8,562
	<u>20,501</u>	<u>26,302</u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(Impairment losses on)/reversal of trade and other receivables, net	(355)	628
Net foreign exchange gain (loss)	5,418	(4,984)
(Loss) gain on disposal/written off of property, plant and equipment	(5,166)	414
Loss on fair value change of derivative component of investments in convertible bonds	–	(5,282)
Fair value gain on investment properties	7,600	800
Gain on disposal of investment in preference shares	5,592	–
	<u>13,089</u>	<u>(8,424)</u>

7. FINANCE COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interests on bank and other borrowings	2,004	3,014
Interest on finance leases	<u>–</u>	<u>6</u>
	<u>2,004</u>	<u>3,020</u>

8. TAXATION

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax		
Hong Kong	848	259
Other jurisdictions	<u>4,194</u>	<u>4,710</u>
	<u>5,042</u>	<u>4,969</u>
Underprovision in prior years		
Other jurisdictions	<u>174</u>	<u>196</u>
Deferred tax		
Current year	<u>426</u>	<u>443</u>
	<u>5,642</u>	<u>5,608</u>

9. PROFIT (LOSS) FOR THE YEAR

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit (loss) for the year has been arrived at after charging:		
Auditor's remuneration	1,380	1,480
Depreciation of property, plant and equipment	16,623	22,320
Staff costs:		
Directors' emoluments (excluding retirement benefits scheme contributions)	13,976	6,682
Salaries and allowances	55,703	65,931
Share-based payments	2,164	710
Retirement benefits scheme contributions	2,635	2,455
	74,478	75,778
Cost of inventories recognised as expense	504,724	519,971
Allowance for (reversal of) inventories (included in cost of inventories) (<i>Note</i>)	1,134	(2,729)
Operating lease payments in respect of rented properties	56,999	63,041
Gross rental income from investment properties	1,816	1,060

Note: The reversal of allowance for the year ended 31 December 2016 is resulted from the subsequent sale of the relevant inventories.

10. EARNINGS (LOSS) PER SHARE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit (loss) for the year for the purpose of basic and diluted earnings (loss) per share	<u>85,872</u>	<u>(12,375)</u>
	2017 <i>Number of shares</i>	2016 <i>Number of shares</i>
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings (loss) per share	<u>5,219,541,190</u>	<u>5,215,792,775</u>

For the year ended 31 December 2017, the computation of diluted earnings per share does not assume the exercise of the Company's share options since the adjusted exercise price of the share options outstanding were higher than average market price of the shares for the year ended 31 December 2017.

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

	<i>HK\$'000</i>
At 1 January 2016	–
Transfer from property, plant and equipment	46,800
Additions	100
Fair value gain on investment properties	<u>800</u>
At 31 December 2016	47,700
Fair value gain on investment properties	<u>7,600</u>
At 31 December 2017	<u><u>55,300</u></u>

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 less impairment as the conversion option of the hybrid instrument is sufficiently significant to preclude the Group from obtaining a reliable estimate of the entire instrument.

During the year ended 31 December 2017, the investment was sold to an independent third party at a consideration of HK\$42,871,000 and a gain of HK\$5,592,000 was recognised in profit or loss upon disposal.

13. TRADE AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	56,805	35,997
Less: Allowance for doubtful debts	<u>—</u>	<u>—</u>
	56,805	35,997
Purchase deposits	—	43,837
Utility and rental deposits	2,192	2,246
Prepayments and other receivables	<u>12,000</u>	<u>11,321</u>
	<u>70,997</u>	<u>93,401</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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 30 days	21,614	18,548
31 to 60 days	13,934	14,452
61 to 90 days	9,250	1,665
91 days to 1 year	9,065	1,210
Over 1 year	<u>2,942</u>	<u>122</u>
	<u>56,805</u>	<u>35,997</u>

14. LOAN RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Fixed-rate loans	<u>35,220</u>	<u>57,000</u>

As at 31 December 2016, outstanding loan receivables amounted to HK\$26,000,000 and HK\$31,000,000 both carrying interest rate of 8% per annum with maturity in November 2017 and December 2017 respectively were secured by listed securities in Hong Kong with fair values of HK\$96,713,000 and HK\$67,483,000 respectively. The loan receivables were repaid during the year ended 31 December 2017.

As at 31 December 2017, loan receivable amounted to HK\$20,000,000 with maturity in July 2018 carrying interest rate of 8% per annum were secured by listed securities in Hong Kong with fair values of HK\$45,000,000. The remaining loan receivable amounted to HK\$15,220,000 with maturity in August 2018 carrying interest rate of 10% per annum were secured by second legal charge of residential properties located in Hong Kong with fair values of HK\$36,825,000.

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.

15. 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.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 30 days	17,317	41,142
31 to 60 days	4,819	1,173
61 to 90 days	3,691	38
91 days to 1 year	4,808	5,801
Over 1 year	<u>767</u>	<u>530</u>
Trade and bills payables	31,402	48,684
Deposits received from customers	43,690	234,505
Advance payments from customers	3,280	4,215
Accrued charges	31,508	17,307
Other payables	<u>11,214</u>	<u>26,553</u>
	<u>121,094</u>	<u>331,264</u>

16. BANK AND OTHER BORROWINGS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Bank borrowings	4,900	6,613
Trust receipt loans	77,304	53,156
Other borrowings from restricted licensed banks	1,362	20,811
Other borrowings from a financial institution	22,600	10,000
	<u>106,166</u>	<u>90,580</u>
Secured	<u>106,166</u>	<u>90,580</u>
Carrying amount repayable:		
On demand or within one year	103,005	85,675
More than one year, but not exceeding two years	1,788	1,750
More than two years, but not exceeding five years	1,373	3,155
	<u>106,166</u>	<u>90,580</u>
Less: Amounts due within one year shown under current liabilities	<u>(103,005)</u>	<u>(85,675)</u>
Amounts shown under non-current liabilities	<u>3,161</u>	<u>4,905</u>

17. DIVIDEND

No dividend was paid or proposed during year ended 31 December 2017 (2016: Nil), nor has any dividend been proposed since the end of the reporting period (2016: Nil).

18. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transaction with VMS Securities Limited (“**VMS Securities**”). Ms. Mak Siu Hang Viola is a controlling shareholder of VMS Securities, and together with her associate are beneficially interested in 28.7% of the Company and Mr. Chong Tin Lung Benny is a director of VMS Securities and the Chairman of the Company.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Consultancy fee to VMS Securities	<u>2,000</u>	<u>–</u>

Compensation of key management personnel

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Fees	540	540
Salaries and other benefits	5,948	6,174
Performance related incentive payments	9,846	1,001
Share-based payments	1,316	1,500
Retirement benefit scheme contributions	<u>54</u>	<u>56</u>
	<u>17,704</u>	<u>9,271</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

CAR DIVISION

Revenue

The Car Division's revenue in 2017 increased by 7.0% to HK\$787.4 million (2016: HK\$736 million).

In mainland China, the revenue generated from our pre-delivery inspection (“PDI”) services in Shanghai increased to HK\$99.8 million (2016: HK\$77.8 million) mainly contributed by the increase of number of Maserati cars and the new PDI services for Alfa Romeo that newly commenced in March 2017.

In Hong Kong, the revenue from Maserati business recorded an increase of 59% to HK\$264.5 million (2016: HK\$166.4 million) attributable to the increase of both new car unit sales and after-sales revenue. With the remarkable contribution from the Maserati business, the overall revenue recorded an increase of 4.5% to HK\$687.6 million (2016: HK\$658.2 million) and recorded an increase in overall car unit sales despite the Ferrari business stays inactive due to the announcement of termination of the import and distribution rights of Ferrari cars in Hong Kong and Macau with effect from 27 May 2017.

Cost of Sales and Gross Profit

Gross profit margin increased 5.4 percentage points to 30.4%. Our gross profit increased from HK\$183 million in 2016 to HK\$238.8 million owing to the increase in car unit sales of Maserati in Hong Kong operation.

Other Income

For the year ended 31 December 2017, other income amounted to HK\$20.1 million (2016: HK\$21.5 million). The net decrease of HK\$1.4 million was the net impact from the drop of the forfeiture of customer deposit and the increase of supports from suppliers included subsidies, waiver of marketing and clawback charges.

Other Gains and Losses

Other gains and losses amounted to a net loss of HK\$0.1 million (2016: loss of HK\$3.9 million) which included loss on disposal of property, plant and equipment of HK\$5.2 million, loss on impairment of account receivables of HK\$0.4 million and net foreign exchange gain of HK\$5.5 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2017 aggregated to HK\$178.5 million (2016: HK\$205.7 million), which accounted for 22.7% (2016: 28%) of revenue. The net decrease of HK\$27.2 million was mainly due to a decrease in staff related cost and rental cost, resulting from our cost optimization, restructuring plan and termination with Ferrari.

Finance Costs

Finance costs in 2017 were reduced by 34.7% to HK\$1.9 million (2016: HK\$2.8 million).

FINANCIAL INVESTMENTS AND SERVICES AND PROPERTY INVESTMENT DIVISIONS

Operating Results

For the year ended 31 December 2017, the revenue of Financial Investments and Services division dropped to HK\$3.6 million (2016: HK\$5.5 million) as more stringent measures on granting financing services were adopted due to the uncertain economic environment. Segment profit increased by HK\$4.4 million to HK\$8.7 million (2016: HK\$4.3 million) that was mainly contributed by the HK\$5.6 million gain on disposal of the investment in preference shares.

Furthermore, the Property Investment division recorded a rental income of HK\$1.8 million for leasing the property of the Group to a third party (2016: HK\$1 million). Segment profit increased by HK\$7.9 million to HK\$9.4 million (2016: HK\$1.5 million) that was mainly contributed by the fair value gain of HK\$7.6 million on the investment property. During the year, the Group has made an indirect investment in an office building in Glasgow, Scotland that allows the Group to enjoy a stable income stream from the rental income attributable to such office building.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders of the Company for the year was HK\$85.9 million (2016: loss of HK\$12.4 million). The Group return on equity ratio for the year ended 31 December 2017 improved to 17.5% from a negative return of 3.1% for the year ended 31 December 2016 based on profit after taxation for the year of HK\$85.9 million (2016: loss of HK\$12.4 million) and total equity of HK\$490.7 million (2016: HK\$398.8 million). A turnaround of the Group's performance is primarily attributable to (i) an increase in unit sales of Maserati cars; (ii) an increase in income from the provision of after-sales services in Hong Kong and pre-delivery inspection services in mainland China; and (iii) fair value gain on investment properties.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalents

As at 31 December 2017, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$313.2 million as compared with HK\$295.7 million as at 31 December 2016, which were denominated in Hong Kong dollars (as to 75%), Renminbi (as to 17%) and U.S. dollars (as to 7%).

Bank and Other Borrowings

As at 31 December 2017, the Group had bank and other borrowings totalling HK\$106.2 million (2016: HK\$90.6 million) of which HK\$3.2 million were repayable more than one year. Net cash position as at 31 December 2017 was HK\$207 million (2016: HK\$205 million). The Group debt to equity ratio for the year ended 31 December 2017 improved to 21.6% from 22.7% for the year ended 31 December 2016 based on the total of current and non-current bank and other borrowings of HK\$106.2 million (2016: HK\$90.6 million) and total equity of HK\$490.7 million (2016: HK\$398.8 million).

Loan Receivables

During the year, the Group had engaged in Financial Investment and Services Business, which included the provision of loan financing. As at 31 December 2017, the Group had outstanding secured loans lent to customers totalling HK\$35.2 million (31 December 2016: HK\$57 million), which carry an interest rate range from 8% to 10% per annum and were repayable within 12 months.

PLEDGE OF ASSETS

As at 31 December 2017, certain of the Group's properties, bank deposits, inventories totalling HK\$104.1 million (2016: HK\$136.3 million) were pledged as securities for relevant bank loans and other bank facilities granted.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2017, the Group had total capital commitments of HK\$9.9 million (2016: HK\$11.4 million), all are authorized but not contracted for (2016: HK\$5.8 million) whereas the Group had authorized and contracted for capital commitment of HK\$5.6 million as at 31 December 2016. The capital commitment primarily related to addition of demo cars for Maserati business. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2017, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

There are no subsequent events after the end of the reporting period.

HUMAN RESOURCES

The Group employed a total of 179 employees as at 31 December 2017. 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 youth, the elderly and the disadvantaged.

BUSINESS REVIEW

Maserati

With the progressing economic recovery in Hong Kong, the overall passenger car segment maintained moderate growth of over 12% in 2017 while the sales of luxury car brand segment still suffered a visible drop of 36%. Under such circumstance, Maserati new car sales achieved over 70% increase in 2017 to reach over 300 units of cars sold, mainly benefit by the delivery of Maserati SUV, Levante diesel, good from the high market demand for luxury SUVs. To react on the change of government policy which suspended the registration of diesel private car, we have launched the Levante S GranSport with petrol engine in time. With the swift action and consistent delivery schedule, we were able to maintain seamless operation to support the business.

For after-sales operation, we undertake several enhancements in 2017. First, we have relocated our Body & Paint operation to our Shatin Service facility. This consolidation of Service, Spare Parts & Body under one roof has significantly improved our response time to our customers while reducing operating expenses.

Secondly, we have successfully completed a comprehensive After Sales operation audit conducted by Maserati in conjunction with MXL International, the official regional audit partner. The result of 98.6% is the best in the region and among the top results globally. Lastly, with a strong new car delivery results, a stable active car parc and the entire After Sales team focus on Maserati, we have increased our revenue while maintaining our best in class customer satisfaction index.

In respect of the marketing, Maserati continued to adopt comprehensive approaches to strengthen the brand image and expand our sales channels in the market. The three major car shows in the high-end shopping malls not only resulted in good number of sales, but also continued to break our best records and raise the bar for improvement. Branding and CRM activities including the Maserati Golf Invitational, exclusive dinner gathering with classic car expert and Drive & Sail event, all elevated the customer loyalty and improve the brand exposure in our targeted groups.

Customer Satisfaction Survey (CSI) remains highly positive with average score of 99 out of 100. In addition, we carried out a Best-In-Class audit program with Maserati principle with all sales and CRM process guidelines refined and consolidated. Achieving over 97% competence and being one of the top markets, this proved our outstanding services to our customers.

Pre-Delivery Inspection

Our PDI operation in both Hong Kong and China performed well and achieved satisfactory result in 2017.

In Shanghai, our PDI Center has successfully delivered all forecasted targets of Ferrari, Maserati and Alfa Romeo cars for our clients in the China market. We have completed inspections, repaired and delivered over 35,000 cars in total. This represents over 160% increase from about 13,200 cars in 2016, with remarkable contribution from our new Alfa Romeo business contract with FCA China. The PDI Center has been relocated to the current site since March 2017, increasing from the previous 10,000 square meters to the current 13,000 square meters. It has been designed with close consultation with our client in the Maserati Turin plant, renovated and equipped with state-of-the-art fully automatic conveyor belts for production line setup in light tunnels, which is an industry-first in China. Improving our PDI processes and efficiency by over 350%, we can inspect close to 140 cars per day now, compared to 40 cars per day in the old site.

In Hong Kong, we have achieved 9.6% increase in number of units delivered for Audi PDI service. With a solid cooperation to the principle, professionally trained staff and strong logistics network, we have further reduced turnaround time and improved delivery quality.

Property Investment, Financial Investments and Services

During the year, the Group continued to engage in property investment business, financing business and financing-related consultancy services. The Group mainly provides short to medium-term financing, normally not exceeding 12 months, to our clients. In August 2017, the Group has made an indirect investment in an office building in Glasgow, Scotland that allows the Group to enjoy a stable income stream from the rental income attributable to such office building and also enable the Group to capture the upside of the recovering property market in Scotland.

Ferrari

The Ferrari business stays inactive due to the announcement of termination of the Group's import and distribution rights of Ferrari cars in Hong Kong and Macau with effect from 27 May 2017. In March 2017, the Group and Ferrari entered into a term sheet concerning the transitional arrangements of Ferrari vehicle orders and after-sales services for the period from 27 May 2017 until 30 September 2017. During the year, under the restrictions on new car sales and order, the Group focused on the new car delivery, including the 488 Coupe/Spider, California T HS and F-12 TDF and La Ferrari Aperta. To ensure a smooth transitional progress of Ferrari vehicle orders and after-sales services, before 30 September 2017, the Group provided certain services, including new vehicle delivery and after-sales maintenance services for our customers to show our business commitment.

OUTLOOK

Looking forward to 2018, we will continue to expand the sales channel and enhance our facilities of Maserati. Innovative display with feature elements will be implemented in Wan Chai showroom to offer advanced services to the visitors and boost showroom traffic. Pre-owned business will be another major focus – new POS will be set up in the flagship showroom to create synergy effect for both new and pre-owned car business. Meanwhile, we will also expand our customer profile in the different segment by proactively tapped into cross-branding activities. We will also strive for massive brand exposure by participation in regional scale event to maintain the luxury status of Maserati. Together with the upcoming new models of Maserati, we are confident to sustain our rapid sales growth and brand position in the market.

The Group will continue looking at opportunities in the auto, real estate and financial investment with the aim of bringing long-term enhancement of value to our shareholders.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil). No interim dividend was paid during the year ended 31 December 2017 (2016: Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

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**”) and Corporate Governance Report 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**”) throughout the year ended 31 December 2017, 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

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 of the Listing Rules (the “**Model Code**”) 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 2017, the Directors have confirmed in writing that they complied with the standards set out in the Model Code.

REVIEW OF ANNUAL RESULTS

The members of the audit committee of the Company (the “**Audit Committee**”) comprises Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie and Mr. LEE Ben Tiong Leong, all of whom are independent non-executive Directors. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017 including the accounting principles and practices adopted by the Group, and discussed the risk management, internal control and financial reporting matters during the review.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the “**AGM**”) will be held on Friday, 25 May 2018. For further details of the AGM, please refer to the notice of AGM, which will be despatched to the shareholders of the Company (the “**Shareholders**”) in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the Shareholders who are entitled to attend and vote at the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 17 May 2018. The register of members of the Company will be closed from Friday, 18 May 2018 to Friday, 25 May 2018 (both days inclusive), during which period no share transfers can be registered.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group’s auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the websites of the Stock Exchange (<http://www.hkexnews.com.hk>) and the Company's website (<http://www.autoitalia.com.hk>) respectively. The annual report of the Company for the year ended 31 December 2017 will be dispatched to the Shareholders and published on the aforesaid 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, 28 March 2018

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.