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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 2018

The Board of AUTO ITALIA HOLDINGS LIMITED (the “Company”) announces that the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:-

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue from goods and services	3	325,333	787,418
Rental income		1,816	1,816
Interest income from loan receivables		10,946	3,639
Total revenue		338,095	792,873
Cost of sales and services		(243,857)	(548,588)
Gross profit		94,238	244,285
Other income	5	30,434	20,501
Other gains and losses	6	2,897	13,444
Impairment losses, net		(491)	(355)
Selling and distribution costs		(81,859)	(108,587)
Administrative expenses		(55,777)	(80,592)
Finance costs	7	(1,751)	(2,004)
Share of result of an associate		6,674	4,822
(Loss) profit before taxation		(5,635)	91,514
Taxation	8	(1,768)	(5,642)
(Loss) profit for the year	9	(7,403)	85,872
(Loss) earnings per share	10		
– Basic		(HK0.14 cent)	HK1.65 cent
– Diluted		(HK0.14 cent)	HK1.65 cent

* For identification purposes only

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

For the year ended 31 December 2018

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit for the year	(7,403)	85,872
Other comprehensive (expense) income:		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations and the associate	(5,661)	2,995
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	(2,061)	–
Other comprehensive (expense) income for the year	(7,722)	2,995
Total comprehensive (expense) income for the year	(15,125)	88,867

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Investment properties	<i>11</i>	59,000	55,300
Property, plant and equipment		20,876	25,040
Goodwill		2,480	2,480
Interest in an associate		65,082	62,089
Rental deposits		10,273	9,450
		<u>157,711</u>	<u>154,359</u>
Current assets			
Inventories		184,808	151,962
Trade and other receivables	<i>12</i>	36,675	70,997
Loan receivables	<i>13</i>	89,666	35,220
Pledged bank deposits		44,014	47,024
Bank balances and cash		121,212	266,181
		<u>476,375</u>	<u>571,384</u>
Current liabilities			
Trade and other payables	<i>14</i>	59,672	121,094
Contract liabilities		17,729	–
Tax payable		2,901	6,205
Bank and other borrowings	<i>15</i>	72,815	103,005
		<u>153,117</u>	<u>230,304</u>
Net current assets		<u>323,258</u>	<u>341,080</u>
Total assets less current liabilities		<u>480,969</u>	<u>495,439</u>
Capital and reserves			
Share capital		104,391	104,391
Reserves		373,603	386,294
Total equity		<u>477,994</u>	<u>490,685</u>
Non-current liabilities			
Bank and other borrowings	<i>15</i>	1,382	3,161
Deferred taxation		1,593	1,593
		<u>2,975</u>	<u>4,754</u>
		<u>480,969</u>	<u>495,439</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Trading of cars and related accessories
- Provision of after sales and pre-delivery inspection services

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

		Carrying amounts previously reported as at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 as at 1 January 2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities				
Trade and other payables	<i>(a)</i>	121,094	(43,690)	77,404
Contract liabilities	<i>(a)</i>	—	43,690	43,690

Note:

- (a) As at 1 January 2018, advances from customers of HK\$43,690,000 previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities			
Trade and other payables	59,672	17,729	77,401
Contract liabilities	<u>17,729</u>	<u>(17,729)</u>	<u>–</u>

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and loan receivables. To measure the ECL, trade receivables and loan receivables have been assessed individually based on its own credit risk characteristics.

ECL for other financial assets at amortised cost, including pledged bank deposits and bank balances, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK\$402,000 has been recognised against accumulated losses. The additional loss allowance is charged against the respective asset.

All loss allowances, including trade receivables and loan receivables at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables <i>HK\$'000</i>	Loan receivables <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>
At 31 December 2017 – HKAS 39	56,805	35,220	(68,504)
Impairment under ECL Model	<u>(392)</u>	<u>(10)</u>	<u>(402)</u>
At 1 January 2018	<u>56,413</u>	<u>35,210</u>	<u>(68,906)</u>

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustment recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) <i>HK\$'000</i>	HKFRS 15 <i>HK\$'000</i>	HKFRS 9 <i>HK\$'000</i>	1 January 2018 (Restated) <i>HK\$'000</i>
Current Assets				
Trade and other receivables	70,997	–	(392)	70,605
Loan receivables	<u>35,220</u>	<u>–</u>	<u>(10)</u>	<u>35,210</u>
Current liabilities				
Trade and other payables	121,094	(43,690)	–	77,404
Contract liabilities	<u>–</u>	<u>43,690</u>	<u>–</u>	<u>43,690</u>
Capital and reserves				
Reserves	<u>(68,504)</u>	<u>–</u>	<u>(402)</u>	<u>(68,906)</u>

3. REVENUE

A. For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

HK\$'000

Types of goods and services

Trading of cars and related accessories	212,482
Provision of after sales and pre-delivery inspection services	<u>112,851</u>

Total 325,333

Geographical markets

Hong Kong	282,804
Mainland China (excluding Hong Kong and Macau)	<u>42,529</u>

Total 325,333

Timing of revenue recognition

A point in time	212,482
Overtime	<u>112,851</u>

Total 325,333

B. For the year ended 31 December 2017

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

HK\$'000

Sales of goods to customers, less returns and discounts	525,171
Maintenance service income	262,247
Interest income from loan receivables	3,639
Rental income	<u>1,816</u>

792,873

4. 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/loss earned by each segment without allocation of share of result of an associate, interest income from bank deposits/bank balances, certain unallocated corporate expenses and finance costs. This is the measure reported to CODM for the purpose of resource allocation and assessment of segment performance.

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 2018

	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>325,333</u>	<u>10,946</u>	<u>1,816</u>	<u>338,095</u>
SEGMENT RESULTS				
Segment (loss) profit	<u>(16,115)</u>	<u>6,745</u>	<u>5,370</u>	<u>(4,000)</u>
Share of result of an associate				6,674
Interest income				411
Unallocated corporate expenses				(6,969)
Finance costs				<u>(1,751)</u>
Loss before taxation				<u>(5,635)</u>

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>	96,067
Share of result of an associate				4,822
Interest income				294
Unallocated corporate expenses				(7,665)
Finance costs				<u>(2,004)</u>
Profit before taxation				<u>91,514</u>

Segment assets and liabilities

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

At 31 December 2018

	Cars	Financial	Property	Consolidated
	HK\$'000	investments	investment	HK\$'000
		and services	HK\$'000	
		HK\$'000		
Assets				
Segment assets	<u>253,368</u>	<u>90,809</u>	<u>59,199</u>	403,376
Bank balances and cash				121,212
Interest in an associate				65,082
Pledged bank deposits				44,014
Unallocated corporate assets				<u>402</u>
Consolidated assets				<u>634,086</u>
Liabilities				
Segment liabilities	<u>73,404</u>	<u>336</u>	<u>626</u>	74,366
Bank and other borrowings				74,197
Deferred taxation				1,593
Tax payable				2,901
Unallocated corporate liabilities				<u>3,035</u>
Consolidated liabilities				<u>156,092</u>

At 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>
Assets				
Segment assets	<u>258,166</u>	<u>35,723</u>	<u>55,626</u>	349,515
Bank balances and cash				266,181
Interest in an associate				62,089
Pledged bank deposits				47,024
Unallocated corporate assets				<u>934</u>
Consolidated assets				<u>725,743</u>
Liabilities				
Segment liabilities	<u>112,748</u>	<u>82</u>	<u>634</u>	113,464
Bank and other borrowings				106,166
Deferred taxation				1,593
Tax payable				6,205
Unallocated corporate liabilities				<u>7,630</u>
Consolidated liabilities				<u>235,058</u>

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

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

5. OTHER INCOME

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commission income	5,547	6,249
Bank interest income	411	294
Subsidies income from suppliers	22,468	3,847
Forfeited customers' deposits	50	450
Others	1,958	9,661
	<u>30,434</u>	<u>20,501</u>

6. OTHER GAINS AND LOSSES

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net foreign exchange (loss) gain	(3,192)	5,418
Gain (loss) on disposal/written off of property, plant and equipment	328	(5,166)
Fair value gain on investment properties	3,700	7,600
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	2,061	–
Gain on disposal of investment in preference shares	–	5,592
	<u>2,897</u>	<u>13,444</u>

7. FINANCE COSTS

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests on bank and other borrowings	1,751	2,004

8. TAXATION

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax		
Hong Kong	1,445	848
Other jurisdictions	507	4,194
	<u>1,952</u>	<u>5,042</u>
(Over)/underprovision in prior years		
Hong Kong	(233)	–
Other jurisdictions	49	174
	<u>(184)</u>	<u>174</u>
Deferred tax		
Current year	–	426
	<u>1,768</u>	<u>5,642</u>

9. (LOSS) PROFIT FOR THE YEAR

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss) profit for the year has been arrived at after charging:		
Auditor's remuneration	1,200	1,380
Depreciation of property, plant and equipment	11,511	16,623
Staff costs:		
Directors' emoluments (excluding retirement benefits scheme contributions)	7,400	13,976
Salaries and allowances	39,948	55,703
Share-based payments	2,291	2,164
Retirement benefits scheme contributions	2,691	2,635
	<u>52,330</u>	<u>74,478</u>
Cost of inventories recognised as expense	227,515	504,724
Allowance for inventories (included in cost of inventories)	218	1,134
Impairment losses on trade and other receivables and loan receivables, net	491	355
Operating lease payments in respect of rented properties	<u>39,773</u>	<u>56,999</u>

10. (LOSS) EARNINGS PER SHARE

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss) profit for the year for the purpose of basic and diluted (loss) earnings per share	<u>(7,403)</u>	<u>85,872</u>
	2018 <i>Number of shares</i>	2017 <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>5,219,541,190</u>

For the year ended 31 December 2018, the computation of diluted loss per share does not assume the exercise of the Company's share options because the assumed exercise of share options would result in decrease in loss per share.

For the year ended 31 December 2017, the computation of diluted earning per share does not assume the exercise of the share options granted 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.

11. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
At 1 January 2017	47,700
Fair value gain on investment properties	<u>7,600</u>
At 31 December 2017	55,300
Fair value gain on investment properties	<u>3,700</u>
At 31 December 2018	<u>59,000</u>

12. TRADE AND OTHER RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	30,860	56,805
Less: Allowance for ECL	<u>(69)</u>	<u>–</u>
	30,791	56,805
Utility and rental deposits	1,221	2,192
Prepayments and other receivables	<u>4,663</u>	<u>12,000</u>
	<u>36,675</u>	<u>70,997</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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	18,364	21,614
31 to 60 days	1,789	13,934
61 to 90 days	4,385	9,250
91 days to 1 year	6,206	9,065
Over 1 year	47	2,942
	<u>30,791</u>	<u>56,805</u>

13. LOAN RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Fixed-rate loans	90,490	35,220
Loss: Allowance for ECL	(824)	–
	<u>89,666</u>	<u>35,220</u>

14. TRADE AND OTHER PAYABLES

Trade and other payables comprise amounts outstanding for trade purposes and daily operating costs. The average credit period on purchase of goods is 30 – 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.

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	24,029	17,317
31 to 60 days	4,819	4,819
61 to 90 days	745	3,691
91 days to 1 year	631	4,808
Over 1 year	768	767
Trade and bills payables	30,992	31,402
Deposits received from customers	–	43,690
Advance payments from customers	3,378	3,280
Accrued charges	19,972	31,508
Other payables	5,330	11,214
	<u>59,672</u>	<u>121,094</u>

15. BANK AND OTHER BORROWINGS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank borrowings	3,162	4,900
Trust receipt loans	44,875	77,304
Other borrowings from restricted licensed banks	1,087	1,362
Other borrowings from a financial institution	<u>25,073</u>	<u>22,600</u>
	<u>74,197</u>	<u>106,166</u>
Secured	<u>74,197</u>	<u>106,166</u>
Carrying amount repayable:		
On demand or within one year	72,815	103,005
More than one year, but not exceeding two years	1,382	1,788
More than two years, but not more than five years	<u>-</u>	<u>1,373</u>
	74,197	106,166
Less: Amounts due within one year shown under current liabilities	<u>(72,815)</u>	<u>(103,005)</u>
Amounts shown under non-current liabilities	<u>1,382</u>	<u>3,161</u>

16. DIVIDEND

No dividend was paid or proposed during year ended 31 December 2018 (2017: Nil), nor has any dividend been proposed since the end of the reporting period (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

CAR DIVISION

Revenue

The Car Division's revenue in 2018 decreased by 59% to HK\$325.3 million (2017: HK\$787.4 million).

In mainland China, the revenue decreased to HK\$42.5 million (2017: HK\$99.8 million) mainly caused by the decrease of number of Maserati and Alfa Romeo cars for pre-delivery inspection service.

In Hong Kong, the overall revenue recorded a drop of 59% to HK\$282.8 million (2017: HK\$687.6 million) primarily due to the close down of Ferrari business in September 2017. Besides, the revenue from Maserati business recorded a slightly decrease of 0.1% to HK\$264.2 million (2017: HK\$264.5 million) mainly affected by the decrease of new car unit sales.

Cost of Sales and Gross Profit

Gross profit margin decreased 5.4 percentage points to 25%. Our gross profit decreased from HK\$238.8 million in 2017 to HK\$81.5 million owing to the decrease in car unit sales of Ferrari and Maserati in Hong Kong operation as well as the number of Maserati and Alfa Romeo cars for PDI service in Mainland China.

Other Income

For the year ended 31 December 2018, other income amounted to HK\$30.4 million (2017: HK\$20.1 million). The net increase of HK\$10.3 million was the net impact from the increase of sales and marketing supports from suppliers and the drop of the forfeiture of customer deposit.

Other Gains and Losses and Impairment Losses, Net

Other gains and losses and impairment losses, net, amounted to a net gain of HK\$0.8 million (2017: loss of HK\$0.1 million) which included gain on disposal of property, plant and equipment of HK\$0.3 million, net foreign exchange gain of HK\$0.1 million and net reversal of impairment losses on trade receivables of HK\$0.3 million.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses in 2018 aggregated to HK\$128.1 million (2017: HK\$178.5 million), which accounted for 39.4% (2017: 22.7%) of revenue. The net decrease of HK\$50.4 million was mainly due to a decrease in rental cost and staff related cost resulting from our cost optimization, restructuring plan and termination with Ferrari.

Finance Costs

Finance costs in 2018 were reduced by 13% to HK\$1.6 million (2017: HK\$1.9 million).

FINANCIAL INVESTMENTS AND SERVICES AND PROPERTY INVESTMENT DIVISIONS

Operating Results

For the year ended 31 December 2018, the revenue of Financial Investments and Services Division increased to HK\$10.9 million (2017: HK\$3.6 million), representing an increase of HK\$7.3 million. The increase was mainly due to the expansion of our loan portfolio. As at 31 December 2018, the loan receivables increased to HK\$89.7 million (2017: HK\$35.2 million). Segment profit decreased by HK\$2 million to HK\$6.7 million (2017: HK\$8.7 million) as there have a HK\$5.6 million gain on disposal of the investment in preference shares recognised in 2017 and impairment losses on loan receivables of HK\$0.8 million in 2018.

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 (2017: HK\$1.8 million) and record a fair value gain of HK\$3.7 million on the investment property (2017: HK\$7.6 million). In the third quarter of 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. For the year ended 31 December 2018, the share of profit from such investment included the share of the fair value gain of the property was HK\$6.7 million (2017: HK\$4.8 million).

LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders of the Company for the year was HK\$7.4 million (2017: profit of HK\$85.9 million). Such loss is primarily attributable to the decline in revenue of the Car Division due to uncertain economic environment and subdued market sentiment.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalents

As at 31 December 2018, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$165.2 million as compared with HK\$313.2 million as at 31 December 2017, which were denominated in Hong Kong dollars (as to 92%), Renminbi (as to 4.6%), U.S. dollars (as to 3.1%) and Euro (as to 0.3%).

Bank and Other Borrowings Loans

As at 31 December 2018, the Group had bank and other borrowings totalling HK\$74.2 million (2017: HK\$106.2 million) of which HK\$1.4 million were repayable more than one year. Net cash position as at 31 December 2018 was HK\$91 million (2017: HK\$207 million). The Group debt to equity ratio for the year ended 31 December 2018 improved to 15.5% from 21.6% for the year ended 31 December 2017 based on the total of current and non-current bank and other borrowings of HK\$74.2 million (2017: HK\$106.2 million) and total equity of HK\$478.0 million (2017: HK\$490.7 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 2018, the Group had outstanding secured loans lent to customers totalling HK\$89.7 million (31 December 2017: HK\$35.2 million), which carry an interest rate range from 8% to 30% per annum and were repayable within 12 months.

PLEDGE OF ASSETS

As at 31 December 2018, certain of the Group's properties, bank deposits, inventories totalling HK\$104.5 million (2017: HK\$104.1 million) were pledged as securities for relevant bank loans and other bank facilities granted.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group had total capital commitments of HK\$0.35 million (2017: HK\$9.9 million), all capital commitments as at 31 December 2018 and 2017 are authorised but not contracted for. The capital commitment primarily related to addition tools and equipment for Maserati business. These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2018, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

There are no significant events subsequent to the end of the reporting period.

HUMAN RESOURCES

The Group employed a total of 125 employees as at 31 December 2018. The Group believes that people are the most valuable asset for supporting its business growth. To this end, competitive remuneration packages and benefits programs as well as learning and development opportunities are provided to attract, motivate and retain talented employees. The Group continues its contribution to local communities through active participation in charitable events such as donations and volunteer works.

BUSINESS REVIEW

Maserati

In 2018, Maserati new car sales maintained a satisfactory performance with close to 300 units sold. The Trident marque achieved a stronghold respectively in the Luxury SUV segment with 42% market share thanks to the Levante S; and 35% market share in the segment where the Ghibli is in. Meanwhile, sales of Ghibli increased by 38% in 2018, supported by the introduction of the model's special versions.

The Maserati car's sales performance was supported by an array of events designed primarily for brand building, and complemented by a wealth of Customer Relationships Management programmes. Included among these activities was the prestigious equestrian event Longines Masters of Hong Kong 2018, the Maserati Performance Lab, at the Central Harbourfront Event Space, and the Maserati Golf Tournament—plus various other events organised in conjunction with luxury brand partners. All of these events and programmes were specifically created to connect with existing and future Maserati customers.

While Maserati has been steadily gaining public awareness, the Group has deployed new operational guidelines in our challenge to further improve customer satisfaction. These guidelines focus on four key elements in relation to ownership experience, namely: customer centricity, simplicity, speed and agility. The overall after-sales service quality was consistently enhanced and our Customer Satisfaction Index survey, conducted on a regular basis, showed an outstanding 96.6% satisfaction level.

The year 2018 allowed the Group to enjoy these results after placing a greater emphasis on providing customers more comprehensive service. The revenue generated from the Group's after-sales service increased by 5.8%. Doubtless, this increased revenue came about due to the introduction of more competitive service pricing, which in turn encouraged our customers to utilise our after-sales service.

In addition, the conclusion of the Audi Pre-Delivery Inspection service contract in November 2018, represented an eagerly anticipated expansion to the technical capability reserved for the Maserati brand. This increased capacity is fully expected to make a positive contribution to the brand's after-sales service.

In the rapidly changing business environment, the Group continues to invest in systems and human resources to increase our efficiency levels. At the same time, the Group has implemented a cost saving programme to improve the business' overall competitiveness.

Pre-Delivery Inspection

The overall revenue derived from the PDI service in mainland China registered an expected correction. The apparent drop of 57% in revenue resulted primarily from the completion of the Alfa Romeo PDI service business in second half of 2018 and the decrease of number of Maserati car for PDI service. The Group had long prepared for the expected development, with a downsized structure and a cost-saving programme in place to lessen the effect of the scaled down business.

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. The loan portfolio of the Group continue to expand during the year, the loan receivable balance increased from HK\$35.2 million as at 31 December 2017 to HK\$89.7 million as at 31 December 2018 and the revenue from financial investments and services business increased to HK\$10.9 million (2017: HK\$3.6 million). Despite the expansion of the loan portfolio, the Group continue adopt a prudent and cautious approach when conducting our financing business.

For the property investment business, the Group completed the indirect investment in an office building in Glasgow in third quarter of 2017 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.

OUTLOOK

After years of delivering Maserati products and services to its customers, the Group has many strengths to leverage as it moves forward. This year will mark a new chapter as the Group further reinforces its Maserati business in neighbouring Macau—the small yet vibrant city with the highest per capita GDP in China—with an elegant new showroom and maintenance centre, opening for business in the second quarter of 2019.

Not only will these cutting-edge facilities provide a comprehensive, customer-centric service to existing and future Maserati customers, they will also enhance brand exposure in the region. As such, the Group will be in the best possible position to make the most of all future opportunities, further contributing to the growing sales and service performance of the Group.

With an eye on the latest development of the global and local economies, the Group will continue to carefully scan future opportunities in the auto, property and financial investment, with the goal being to bring 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 2018 (2017: Nil). No interim dividend was paid during the year ended 31 December 2018 (2017: 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 2018.

CORPORATE GOVERNANCE

Maintaining an effective corporate governance framework is one of the priorities of the Company. In the opinion of the Directors, the Company had complied with all the CG Code Provisions throughout the year ended 31 December 2018, except CG Code Provision A.2.1 of the CG Code.

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

The Company has adopted 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 2018, the Directors confirmed that they complied with the standards set out in the Model Code.

REVIEW OF ANNUAL RESULTS

The members of the Audit Committee comprises Dr SANTOS Antonio Maria, Mr KONG Kai Chuen Frankie and Mr LEE Ben Tiong Leong, all of whom are INEDs. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2018 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 AGM will be held on Wednesday, 29 May 2019. For further details of the AGM, please refer to the notice of AGM, which will be dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

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 Wednesday, 22 May 2019. The register of members of the Company will be closed from Thursday, 23 May 2019 to Wednesday, 29 May 2019 (both dates inclusive), during which period no transfer of Shares will 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 2018 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 ended 31 December 2018. 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

CHANGE IN COMPOSITION OF A BOARD COMMITTEE

The Board announces that pursuant to the Bye-laws of the Company, the Board revoked the authority delegated to the Financial Control Committee and the Financial Control Committee was dissolved on 28 March 2019. Mr CHONG Tin Lung Benny ("**Mr. CHONG**") resigned as chairman of the Financial Control Committee and Mr LAM Chi Yan ("**Mr. LAM**") resigned as member of the Financial Control Committee with effect from 28 March 2019. The Board revoked the appointment of Mr CHONG as chairman of the Financial Control Committee and Mr LAM as members of the Financial Control Committee with effect from 28 March 2019.

Mr CHONG has confirmed that he has no disagreement with the Board and is not aware of any matter in relation to his resignation of chairman of the Financial Contract Committee that needs to be brought to the attention of the holders of securities of the Company.

Mr LAM has confirmed that he has no disagreement with the Board and is not aware of any matter in relation to his resignation as a member of the Financial Contract Committee that needs to be brought to the attention of the holders of securities of the Company.

Following the resignation of Mr CHONG as chairman of the Financial Control Committee and the resignation of Mr LAM as members of the Financial Control Committee, Mr CHONG and Mr LAM remain as the Executive Directors. Mr CHONG is also the Executive Chairman, Chief Executive Officer, the chairman of each of the Nomination Committee and Executive Directors' Committee and a member of the Remuneration Committee. Mr LAM is also a member of the Executive Directors' Committee.

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 2018 will be dispatched to the Shareholders and published on the aforesaid websites in due course.

GLOSSARY OF TERMS

In this announcement, unless the context otherwise requires, the following expressions have the meanings as mentioned below:

“AGM” or “Annual General Meeting”	the annual general meeting of the Company to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 29 May 2019 at 11:00 a.m. or any adjournment thereof;
“Alfa Romeo”	a brand is known for sporty vehicles of an Italian luxury car;
“Audit Committee”	the audit committee of the Company;
“Bill”	The Inland Revenue (Amendment) (No. 7) Bill 2017;

“Board”	the board of Directors;
“Bye-laws”	the bye-laws of the Company as amended, supplemented or otherwise modified from time to time;
“Car Division”	the business segment of the Group in respect of trading cars and related accessories;
“CG Code”	the Corporate Governance Code contained in Appendix 14 of the Listing Rules;
“Chief Executive Officer”	the chief executive officer of the Company;
“CODM”	the chief operating decision maker of the Company;
“Company”	AUTO ITALIA HOLDINGS LIMITED, an exempted company incorporated in Bermuda with limited liability, whose Shares are listed on the main board of the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“ECL”	the expected credit loss;
“EIT Law”	the law of the PRC on enterprise income tax;
“EUR”	Euro, the lawful currency of European Union;
“Executive Chairman”	the chairman of the Board;
“Executive Director(s)”	the executive director(s) of the Company;
“Executive Directors’ Committee”	the executive directors’ committee of the Company;

“Ferrari”	an Italian luxury sports car manufacturer based in Maranello;
“Financial Control Committee”	the financial control committee of the Company;
“Financial Investments and Services Division”	the business segment of the Group in respect of securities investment, financing and corporate finance services;
“Group”	the Company and its subsidiaries;
“HKFRSs”	Hong Kong Financial Reporting Standards;
“HKICPA”	Hong Kong Institute of Certified Public Accountants;
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Non-executive Director(s)” or “INED(s)”	the independent non-executive director(s) of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented or otherwise modified from time to time;
“Maserati”	an Italian luxury vehicle manufacturer, was initially associated with Ferrari S.p.A., and recently becomes partial of the sporty vehicles group including Alfa Romeo;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules;
“Nomination Committee”	the nomination committee of the Company;

“PDI”	pre-delivery inspection;
“PRC” or “Mainland China” or “China”	The People’s Republic of China, which for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Property Investment Division”	the business segment of the Group in respect of property investment;
“Remuneration Committee”	the remuneration committee of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“USD”	United States Dollars, the lawful currency of the United States of America; and
“%”	per cent.

By Order of the Board
AUTO ITALIA HOLDINGS LIMITED
CHONG Tin Lung Benny
Executive Chairman and Chief Executive Officer

Hong Kong, 28 March 2019

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.