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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)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Auto Italia Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue from goods and services		133,518	187,514
Rental income		931	908
Interest income		5,261	4,558
Total revenue		139,710	192,980
Cost of sales and services		(98,381)	(135,376)
Gross profit		41,329	57,604
Other income		20,367	10,808
Other gains and losses	4	1,494	4,457
Reversal of (allowance for) impairment losses, net		666	(22)
Selling and distribution costs		(37,841)	(37,959)
Administrative expenses		(21,703)	(25,417)
Finance costs	5	(2,414)	(1,043)
Share of result of an associate		9,928	4,930
Profit before taxation		11,826	13,358
Taxation	7	(588)	(1,676)
Profit for the period	6	11,238	11,682
Earnings per share			
– Basic	8	HK0.22 cents	HK0.22 cents
– Diluted	8	HK0.22 cents	HK0.22 cents

\* For identification purpose only

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

*For the six months ended 30 June 2019*

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit for the period	<b>11,238</b>	11,682
<b>Other comprehensive expense</b>		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<b>(752)</b>	(1,909)
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	<u>—</u>	<u>(2,061)</u>
Other comprehensive expense for the period	<u><b>(752)</b></u>	<u>(3,970)</u>
Total comprehensive income for the period	<u><b>10,486</b></u>	<u>7,712</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Investment properties		60,400	59,000
Property, plant and equipment		18,631	20,876
Right-of-use assets		50,842	–
Goodwill		2,480	2,480
Interest in an associate		74,378	65,082
Rental deposits		9,747	10,273
		<u>216,478</u>	<u>157,711</u>
<b>Current assets</b>			
Inventories		144,112	184,808
Trade and other receivables	10	35,893	36,675
Loan receivables		71,055	89,666
Pledged bank deposits		44,014	44,014
Bank balances and cash		103,970	121,212
		<u>399,044</u>	<u>476,375</u>
<b>Current liabilities</b>			
Trade and other payables	11	37,121	59,672
Contract liabilities		17,763	17,729
Tax payable		3,202	2,901
Bank and other borrowings	12	15,196	72,815
Lease liabilities		28,318	–
		<u>101,600</u>	<u>153,117</u>
<b>Net current assets</b>		<u>297,444</u>	<u>323,258</u>
<b>Total assets less current liabilities</b>		<u>513,922</u>	<u>480,969</u>

		At <b>30 June</b> <b>2019</b> <i>HK\$'000</i> <b>(unaudited)</b>	At 31 December 2018 <i>HK\$'000</i> (audited)
<b>Capital and reserves</b>			
Share capital	<i>13</i>	<b>104,391</b>	104,391
Reserves		<b>384,876</b>	373,603
<b>Total equity</b>		<b>489,267</b>	477,994
<b>Non-current liabilities</b>			
Bank and other borrowings	<i>12</i>	<b>465</b>	1,382
Deferred taxation		<b>1,593</b>	1,593
Lease liabilities		<b>22,597</b>	–
		<b>24,655</b>	2,975
		<b>513,922</b>	480,969

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

### Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

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

## 2.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases” (“**HKAS 17**”), and the related interpretations.

### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

#### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### *As a lessee*

##### Short-term leases

The Group applies the short-term lease recognition exemption to leases of that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

##### Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability; and
- any initial direct costs incurred by the Group.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment properties”.

#### Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

#### Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

#### Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

#### *As a lessor*

#### Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

## 2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

### *Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

### *As a lessee*

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- (ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities, adjusted by additional lease payments, by applying HKFRS 16 (8(b)(ii)) transition.



When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the Group is 4.25%.

	<b>At 1 January 2019</b> <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	72,850
Lease liabilities discounted at relevant incremental borrowing rates	69,441
Less: Recognition exemption - short-term leases with lease term ends within 12 months of the date of initial application	<u>(1,962)</u>
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	<u>67,479</u>
Analysed as	
Current	33,522
Non-current	<u>33,957</u>
	<u>67,479</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<b>Right-of-use assets</b> <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	67,479
Adjustments on rental deposits at 1 January 2019 ( <i>note</i> )	<u>710</u>
	<u>68,189</u>
By class:	
Land and buildings	<u>68,189</u>

*Note:* Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$710,000 was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and should be adjusted to reflect the discounting effect at transition.

Based on the assessment of the directors of the Company, the application of HKFRS 16 as a lessor has no material impact to these condensed consolidated financial statements as at date of initial application, 1 January 2019 and for the period ended 30 June 2019.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	<b>Carrying amounts previously reported at 31 December 2018 HK\$'000</b>	<b>Adjustments HK\$'000</b>	<b>Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000</b>
<b>Non-current assets</b>			
Rental deposits	10,273	(710)	9,563
Right-of-use assets	–	68,189	68,189
<b>Current liabilities</b>			
Lease liabilities	–	33,522	33,522
<b>Non-current liabilities</b>			
Lease liabilities	–	33,957	33,957

*Note:* For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

### 3. SEGMENT INFORMATION

During the six months ended 30 June 2019, the Group has three operating segments under HKFRS 8 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 - Provision for financing and corporate finance services; and
- (iii) Property investment.

Segment profit represents the profit 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 chief operating decision maker, being the executive directors of the Company, 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 segments:

*Six months ended 30 June 2019 (unaudited)*

	<b>Cars</b> <i>HK\$'000</i>	<b>Financial investments and services</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>SEGMENT REVENUE</b>				
Group revenue	<u>133,518</u>	<u>5,261</u>	<u>931</u>	<u>139,710</u>
<b>SEGMENT RESULTS</b>				
Segment (loss) profit	<u>(888)</u>	<u>3,706</u>	<u>2,276</u>	<u>5,094</u>
Share of result of an associate				<b>9,928</b>
Interest income				<b>140</b>
Unallocated corporate expenses				<b>(2,188)</b>
Finance costs				<u><b>(1,148)</b></u>
Profit before taxation				<u><b>11,826</b></u>

Six months ended 30 June 2018 (unaudited)

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
Group revenue	<u>187,514</u>	<u>4,558</u>	<u>908</u>	<u>192,980</u>
<b>SEGMENT RESULTS</b>				
Segment profit	<u>6,606</u>	<u>3,291</u>	<u>3,326</u>	13,223
Share of result of an associate				4,930
Interest income				200
Unallocated corporate expenses				(3,952)
Finance costs				<u>(1,043)</u>
Profit before taxation				<u>13,358</u>

**Segment assets and liabilities**

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

At 30 June 2019 (unaudited)

	Cars HK\$'000	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>Assets</b>				
Segment assets	<u>258,784</u>	<u>73,152</u>	<u>60,555</u>	<u>392,491</u>
Bank balances and cash				103,970
Interest in an associate				74,378
Pledged bank deposits				44,014
Unallocated corporate assets				<u>669</u>
Consolidated assets				<u>615,522</u>
<b>Liabilities</b>				
Segment liabilities	<u>103,432</u>	<u>179</u>	<u>678</u>	<u>104,289</u>
Bank and other borrowings				15,661
Deferred taxation				1,593
Tax payable				3,202
Unallocated corporate liabilities				<u>1,510</u>
Consolidated liabilities				<u>126,255</u>

At 31 December 2018 (audited)

	Cars <i>HK\$'000</i>	Financial investments and services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets</b>				
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>
<b>Liabilities</b>				
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>

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.

#### 4. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
Gain on disposal of property, plant and equipment	–	155
Net foreign exchange gain (loss)	94	(259)
Fair value gain on investment properties	1,400	2,500
Reclassification adjustment on exchange difference upon liquidation of a foreign operation	–	2,061
	<u>1,494</u>	<u>4,457</u>

#### 5. FINANCE COSTS

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
Interests on bank and other borrowings	1,148	1,043
Interest on lease liabilities	1,266	–
	<u>2,414</u>	<u>1,043</u>

#### 6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (unaudited)	2018 <i>HK\$'000</i> (unaudited)
Depreciation of property, plant and equipment	5,635	5,843
Depreciation of right-of-use assets	17,399	–

## 7. TAXATION

	Six months ended 30 June	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Current tax:		
Hong Kong	325	1,615
Other jurisdictions	263	61
	<u>588</u>	<u>1,676</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Hong Kong profits tax is calculated at 16.5% and taken into consideration the two-tiered profits tax rates regime for both periods.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the both periods and the service income for the non-PRC subsidiary with permanent establishment in the PRC is subject to deemed profit tax rate of 30%.

## 8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period for the purpose of calculating basic and diluted earnings per share	<u>11,238</u>	<u>11,682</u>

### Number of shares

	Six months ended 30 June	
	2019	2018
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	5,219,541,190	5,219,541,190
Effect of dilutive potential ordinary shares:		
Share options	<u>–</u>	<u>731,535</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>5,219,541,190</u>	<u>5,220,272,725</u>

The computation of diluted earnings per share for the six months ended 30 June 2019 does not assume the exercise of the Company's share options since the exercise prices of share options outstanding were higher than average market price of the shares for the six months ended 30 June 2019.

## 9. DIVIDEND

No dividend was paid or declared during the six months ended 30 June 2019 and 2018 nor has any dividend been proposed since the end of the reporting period.



## 10. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Trade receivables	26,710	30,860
Less: Allowance for expected credit losses	<u>(59)</u>	<u>(69)</u>
	26,651	30,791
Utility and rental deposits	1,308	1,221
Prepayments and other receivables	<u>7,934</u>	<u>4,663</u>
	<u><b>35,893</b></u>	<u><b>36,675</b></u>

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

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Within 30 days	12,078	18,364
31 – 60 days	2,111	1,789
61 – 90 days	3,249	4,385
91 days to 1 year	7,082	6,206
Over 1 year	<u>2,131</u>	<u>47</u>
	<u><b>26,651</b></u>	<u><b>30,791</b></u>

As the balances were either subsequently settled or these customers have good repayment history, the amounts are still considered recoverable. Accordingly, the directors believe that no further impairment is required.

## 11. TRADE AND OTHER PAYABLES

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Trade payables	15,343	30,992
Accrued charges	12,272	19,972
Other payables	9,506	8,708
	<u>37,121</u>	<u>59,672</u>

The following is an aged analysis of trade creditors by age, presented based on invoice date, at the end of the reporting period:

	At 30 June 2019 <i>HK\$'000</i> (unaudited)	At 31 December 2018 <i>HK\$'000</i> (audited)
Within 30 days	12,235	24,029
31 – 60 days	766	4,819
61 – 90 days	631	745
91 days to 1 year	940	631
Over 1 year	771	768
	<u>15,343</u>	<u>30,992</u>

## 12. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained several new bank loans from various banks and a financial institution amounting to HK\$42,671,000 (for the six months ended 30 June 2018: HK\$11,145,000) and repaid HK\$101,207,000 (for the six months ended 30 June 2018: HK\$100,340,000). The loans carry interest at variable market rates ranging from 4.22% to 5.88% per annum (31 December 2018: 3.72% to 5.87% per annum).

## 13. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital <i>HK\$'000</i></b>
Ordinary shares of HK\$0.02 each:		
Authorised		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	<u>17,500,000,000</u>	<u>350,000</u>
Issued and fully paid		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	<u>5,219,541,190</u>	<u>104,391</u>

All the shares issued rank pari passu with the existing shares in all respects.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Car Division

##### *Revenue*

For the first half of 2019, the Car Division's revenue decreased by 29% to HK\$133.5 million (2018: HK\$187.5 million).

In Mainland China, the revenue decreased to HK\$16.2 million (2018: HK\$24 million) mainly caused by the decrease of number of Maserati car for Pre-Delivery Inspection (“PDI”) services and the completion of the Alfa Romeo PDI services business in second half of 2018.

The overall revenue from Hong Kong recorded a drop of 29.1% to HK\$115.9 million (2018: HK\$163.5 million) primarily due to the decrease of new Maserati car sales. In Macau, the new Maserati Macau Showroom & Service Centre was officially opened in May 2019 and generated revenue of HK\$1.4 million.

##### *Cost of Sales and Gross Profit*

Gross profit margin decreased by 1.5 percentage points to 26.3%. Our gross profit decreased from HK\$52.1 million to HK\$35.1 million owing to the decrease in car unit sales of Maserati in Hong Kong operation as well as the decrease of number of Maserati and Alfa Romeo cars for PDI service in Mainland China.

##### *Other Income*

For the six months ended 30 June 2019, other income amounted to HK\$20.4 million (2018: HK\$10.8 million). The increase of HK\$9.6 million was mainly contributed by the sale and marketing support from the supplier.

##### *Other Gains and Losses*

Other gains and losses amounted to a net gain of HK\$0.2 million (2018: gain of HK\$2.1 million) which mainly represented net foreign exchange gain of HK\$0.2 million.

## *Selling and Distribution Costs and Administrative Expenses*

Selling and distribution costs and administrative expenses during the period aggregated to HK\$55.1 million (2018: HK\$58.2 million), which accounted for 41.3% (2018: 31%) of revenue. The net decrease of HK\$3.1 million was mainly due to a decrease in staff related cost resulting from our cost optimisation and restructuring plan.

## *Finance Costs*

Finance costs during the period were increased to HK\$2.4 million (2018: HK\$1 million) which included interest on lease liabilities of HK\$1.3 million (2018: Nil).

## **Financial Investments and Services and Property Investment Divisions**

### *Operating Results*

During the period, the revenue of Financial Investments and Services Division increased to HK\$5.3 million (2018: HK\$4.6 million), representing an increase of HK\$0.7 million. The loan receivable balance decreased from HK\$89.7 million as at 31 December 2018 to HK\$71.1 million as at 30 June 2019. Segment profit increased to HK\$3.7 million (2018: HK\$3.3 million).

Furthermore, the Property Investment division recorded a rental income of HK\$0.9 million for leasing the property of the Group to a third party (2018: HK\$0.9 million) and recorded a fair value gain of HK\$1.4 million on the investment properties (2018: HK\$2.5 million). For the indirect investment in an office building in Glasgow, Scotland, the share of profit from such investment included the share of the fair value gain of the property was HK\$9.9 million (2018: HK\$4.9 million).

### **Profit Attributable to Shareholders**

Profit attributable to shareholders of the Company for the six months ended 30 June 2019 was HK\$11.2 million (2018: HK\$11.7 million). It was primarily caused by the decrease in new car sales in Hong Kong and decrease in income from the provision of PDI services in Mainland China.

### **Liquidity and Financial Resources**

#### *Cash Flows*

During the period, the Group financed its operations primarily through cash generated from the Group's operations. We have made a net repayment of bank borrowings of HK\$58.5 million.

### *Cash and Cash Equivalents*

As at 30 June 2019, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$148 million as compared with HK\$165.2 million as at 31 December 2018, which were mainly denominated in Hong Kong dollars (as to 83%), British Pound (as to 8%), Renminbi (as to 5%) and U.S. dollars (as to 4%).

### *Bank and Other Borrowings*

As at 30 June 2019, the Group had bank loans totalling HK\$15.7 million (31 December 2018: HK\$74.2 million), of which HK\$0.5 million was repayable more than one year. Net cash position as at 30 June 2019 was HK\$132.3 million (31 December 2018: HK\$91 million). The Group debt to equity ratio for the six months ended 30 June 2019 improved to 3.2% from 15.5% for the year ended 31 December 2018 based on the total of current and non-current bank and other borrowings of HK\$15.7 million (31 December 2018: HK\$74.2 million) and total equity of HK\$489.3 million (31 December 2018: HK\$478.0 million).

### *Loan Receivables*

During the period, the Group had engaged in Financial Investments and Services business, which included the provision of loan financing. As at 30 June 2019, the Group had outstanding loan lent to customers totalling HK\$71.1 million (31 December 2018: HK\$89.7 million), which carry on interest rate range from 7.5% to 30% per annum and were repayable within twelve months.

### *Pledge of Assets*

As at 30 June 2019, certain of the Group's properties, bank deposits, inventories totalling HK\$111.3 million (31 December 2018: HK\$104.5 million) were pledged as securities for relevant bank loans and other bank facilities granted.

## **CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES**

As at 30 June 2019, the Group had HK\$0.34 million capital commitment (31 December 2018: HK\$0.35 million) of which HK\$0.1 million is authorized but not contracted for (31 December 2018: HK\$0.35 million) and HK\$0.24 million is contracted but not provided for.

As at 30 June 2019, the Group had no material contingent liabilities.

## **EVENT AFTER THE REPORTING PERIOD**

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

## **HUMAN RESOURCES AND CHARITY**

As at 30 June 2019, the Group employed a total of 116 employees in Hong Kong, Macau and Mainland China. The Group believes that employees are all pivotal to our development and representing the most valuable asset for supporting our sustainable business growth.

During the period, we not only provided competitive remuneration packages and benefits programs to our employees, but also provided reasonable and safe working environment, as well as supporting employee's continued education to uncover their hidden potential. The Group also continued its contribution to local communities through active participation in charitable events such as donations and charity walk.

## **BUSINESS REVIEW**

### **Maserati**

The weaker performance of the local economy, having become evident in the latter part of 2018, continued in the first half of 2019. For the first six months of 2019, it was provisionally estimated that the value of total retail sales in Hong Kong decreased by 2.6% compared with the same period in 2018.

Experiencing a decline in the passenger car market, overall luxury sports car segment also slumped and the number of car registration of Maserati decreased by 14% in the first half of 2019 over a year earlier. Ghibli, Levante, and GranCabrio whereas strived to capture more than 10% market share in its relative segment.

Under the soft market situation, the Group adopted dynamic and diversified marketing approaches. In Hong Kong, Maserati participated in the Longines Masters of Hong Kong 2019 for the second consecutive year to achieve a global brand presence in world-class luxury event. The Group continued to organize different test drive events and car shows in high-end shopping malls focusing on client acquisition.

Officially opened in May 2019, the new Maserati Macau Showroom & Service Centre now provides comprehensive brand experience for Macau customers and marked the milestone in the network expansion. The new facility not only offers new showroom experience but also provides one-stop solution on aftersales service to current customers. Maserati also participated in the Macau Motor Trader Association Car Show in June 2019 to arouse the brand and product awareness in the region. Various means on marketing activities were implemented, such as direct mailer to luxury properties, print and online media exposure on grand opening and social media promotion which all targeted to raise the brand awareness to the target audience.

The Group further enhanced the Maserati aftersales service level by increasing manpower which results in increasing customer throughput by 9%. With several promotion campaigns, parts turnover shown remarkable improvement. All of the above further support us to improve the overall service penetration.

### **Pre-Delivery Inspection**

The overall revenue derived from the PDI service in Mainland China registered an expected correction. The apparent drop of 33% 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.

### **Property Investment, Financial Investments and Services**

During the period, 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 receivable balance decreased from HK\$89.7 million as at 31 December 2018 to HK\$71.1 million as at 30 June 2019 and the revenue from financial investments and services business increased to HK\$5.3 million (2018: HK\$4.6 million). Despite the increase of the segment revenue, the Group continue adopt a prudent and cautious approach when conducting our financing business.

For the property investment business, the Group continued to earn a rental income of HK\$0.9 million (2018: HK\$0.9 million) from leasing the investment property. For the indirect investment in an office building in Glasgow, Scotland, the share of profit from such investment included the share of the fair value gain of the property was HK\$9.9 million (2018: HK\$4.9 million).

## **OUTLOOK**

Taking into consideration the current situation of Hong Kong, 2019 will be a challenging year for the economy and affects the retail sector across all automotive brands. The Group expects a slow recovery but with new model and special edition Maserati to be launched, we are optimistic for gaining the momentum and get back on the right track.

The Group will continue to explore different business opportunities with the aim of bringing long-term enhancement of value to our shareholders.



## **INTERIM DIVIDEND**

The Board did not declare the payment of an interim dividend for the six months ended 30 June 2019 (2018: 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 six months ended 30 June 2019.

## **COMPLIANCE WITH THE 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 six months ended 30 June 2019, 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, the Directors confirmed in writing that they have complied with the standards set out in the Model Code throughout the six months ended 30 June 2019.

## **AUDIT COMMITTEE**

The members of the audit committee of the Company (the “**Audit Committee**”) comprise Dr. SANTOS Antonio Maria, Mr. KONG Kai Chuen Frankie and Mr. LEE Ben Tiong Leong, all of whom are independent non-executive Directors. Mr. KONG Kai Chuen Frankie is the chairman of the Audit Committee.

The principal duties of the Audit Committee include to review the financial reporting process, internal control and risk management systems of the Group and to provide advices and comments to the Board.

## **CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

With effect from 11 July 2019, the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited (the “**Branch Share Registrar**”), has been changed its address from Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong to Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong. All telephone and facsimile numbers of the Branch Share Registrar remain unchanged.

## **CHANGE OF ADDRESS OF REGISTERED OFFICE AND ADDRESS OF PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA**

With effect from 15 July 2019, the address of registered office of the Company, has been changed from Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda to Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

With effect from 15 July 2019, the principal share registrar and transfer office in Bermuda of the Company, Estera Management (Bermuda) Limited, has been changed its address from Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda to Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

## **REVIEW OF INTERIM RESULTS**

The interim results of the Group for the six months ended 30 June 2019 have not been audited but have been reviewed by Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants (“**Deloitte**”), the Company’s auditor. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019, which has also been reviewed by Deloitte, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountant.

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

This interim results announcement will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company's website (<http://www.autoitalia.com.hk>) respectively. The interim report of the Company for the six months ended 30 June 2019 will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange 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 August 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, all 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.*