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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 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Auto Italia Holdings Limited (the “**Company**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue from goods and services	3	55,773	133,518
Rental income		1,016	931
Interest income from loan receivables		2,005	5,261
		<hr/>	<hr/>
Total revenue		58,794	139,710
Cost of sales and services		(31,197)	(98,381)
		<hr/>	<hr/>
Gross profit		27,597	41,329
Other income	5	7,271	20,367
Other gains and losses	6	(769)	1,494
Reversal of impairment losses under expected credit loss (“ ECL ”) model, net		132	666
Selling and distribution costs		(21,577)	(37,841)
Administrative expenses		(15,837)	(21,703)
Finance costs	7	(7,818)	(2,414)
Share of result of an associate		1,338	9,928
		<hr/>	<hr/>
(Loss) profit before taxation		(9,663)	11,826
Taxation	9	1,611	(588)
		<hr/>	<hr/>
(Loss) profit for the period	8	(8,052)	11,238
		<hr/>	<hr/>
(Loss) earnings per share			
– Basic	10	(HK0.15 cents)	HK0.22 cents
– Diluted	10	(HK0.15 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 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period	<u>(8,052)</u>	<u>11,238</u>
Other comprehensive expense		
<i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations and the associate	<u>(6,149)</u>	<u>(752)</u>
Other comprehensive expense for the period	<u>(6,149)</u>	<u>(752)</u>
Total comprehensive (expense) income for the period	<u>(14,201)</u>	<u>10,486</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		At 30 June 2020 <i>HK\$'000</i> (unaudited)	At 31 December 2019 <i>HK\$'000</i> (audited)
Non-current assets			
Investment properties		56,000	56,500
Property, plant and equipment		10,037	12,135
Right-of-use assets		27,050	39,309
Goodwill		2,480	2,480
Investments in associates		307,576	81,484
Rental deposits		6,180	6,208
		<u>409,323</u>	<u>198,116</u>
Current assets			
Inventories		93,409	112,602
Trade and other receivables	12	11,921	28,569
Loan receivables		26,599	70,055
Tax recoverable		167	–
Pledged bank deposits		44,021	44,019
Bank balances and cash		48,350	104,014
		<u>224,467</u>	<u>359,259</u>
Current liabilities			
Trade and other payables	13	14,462	31,350
Contract liabilities		15,766	19,496
Tax payable		–	2,853
Bank and other borrowings	14	1,776	5,323
Lease liabilities		22,243	23,078
		<u>54,247</u>	<u>82,100</u>
Net current assets		<u>170,220</u>	<u>277,159</u>
Total assets less current liabilities		<u>579,543</u>	<u>475,275</u>

		At 30 June 2020 <i>HK\$'000</i> (unaudited)	At 31 December 2019 <i>HK\$'000</i> (audited)
Capital and reserves			
Share capital		104,391	104,391
Reserves		<u>338,640</u>	<u>352,526</u>
Total equity		<u>443,031</u>	<u>456,917</u>
Non-current liabilities			
Bank and other borrowings	<i>14</i>	130,000	–
Deferred taxation		936	1,593
Lease liabilities		<u>5,576</u>	<u>16,765</u>
		<u>136,512</u>	<u>18,358</u>
		<u>579,543</u>	<u>475,275</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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**”).

1A. Significant events in the current interim period

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. On the other hand, the Hong Kong government has announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue and increase in government grants in respect of Covid-19-related subsidies as disclosed in the relevant notes.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the 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.

Impact of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

3. REVENUE FROM GOODS AND SERVICES

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Disaggregation of revenue		
Trading of cars and related accessories	27,807	88,928
Provision of after sales and pre-delivery inspection services	27,966	44,590
	<hr/>	<hr/>
Total revenue from contracts with customers/segment revenue – cars	55,773	133,518
	<hr/>	<hr/>
Geographical markets		
Hong Kong	53,477	115,906
Macau	1,664	1,409
The People's Republic of China (excluding Hong Kong and Macau)	632	16,203
	<hr/>	<hr/>
Total revenue from contracts with customers/segment revenue – cars	55,773	133,518
	<hr/>	<hr/>
Timing of revenue recognition		
A point of time	27,807	88,928
Over time	27,966	44,590
	<hr/>	<hr/>
Total revenue from contracts with customers/segment revenue – cars	55,773	133,518
	<hr/>	<hr/>

4. SEGMENT INFORMATION

During the six months ended 30 June 2020, the Group has three operating segments under HKFRS 8 “Operating Segments” 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 2020 (unaudited)

	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 revenue	<u>55,773</u>	<u>2,005</u>	<u>1,016</u>	58,794
SEGMENT RESULTS				
Segment (loss) profit	<u>(2,059)</u>	<u>(92)</u>	<u>457</u>	(1,694)
Share of result of an associate				1,338
Interest income				190
Unallocated corporate expenses				(2,428)
Finance costs				<u>(7,069)</u>
Loss before taxation				<u>(9,663)</u>

Six months ended 30 June 2019 (unaudited)

	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 revenue	<u>133,518</u>	<u>5,261</u>	<u>931</u>	139,710
SEGMENT RESULTS				
Segment (loss) profit	<u>(888)</u>	<u>3,706</u>	<u>2,276</u>	5,094
Share of result of an associate				9,928
Interest income				140
Unallocated corporate expenses				(2,188)
Finance costs				<u>(1,148)</u>
Profit before taxation				<u>11,826</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 2020 (unaudited)

	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>150,183</u>	<u>27,054</u>	<u>56,100</u>	233,337
Bank balances and cash				48,350
Investments in associates				307,576
Pledged bank deposits				44,021
Tax recoverable				167
Unallocated corporate assets				<u>339</u>
Consolidated assets				<u>633,790</u>
Liabilities				
Segment liabilities	<u>51,161</u>	<u>314</u>	<u>726</u>	52,201
Bank and other borrowings				131,776
Deferred taxation				936
Unallocated corporate liabilities				<u>5,846</u>
Consolidated liabilities				<u>190,759</u>

At 31 December 2019 (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>
Assets				
Segment assets	<u>197,876</u>	<u>72,950</u>	<u>56,595</u>	327,421
Bank balances and cash				104,014
Investment in an associate				81,484
Pledged bank deposits				44,019
Unallocated corporate assets				<u>437</u>
Consolidated assets				<u>557,375</u>
Liabilities				
Segment liabilities	<u>86,870</u>	<u>379</u>	<u>692</u>	87,941
Bank and other borrowings				5,323
Deferred taxation				1,593
Tax payable				2,853
Unallocated corporate liabilities				<u>2,748</u>
Consolidated liabilities				<u>100,458</u>

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

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

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Commission income	2,286	2,931
Handling fee	1,167	–
Forfeited customers' deposits	1,052	–
Bank interest income	190	140
Government grant	787	–
Subsidies income from suppliers	–	16,411
Others	1,789	885
	<u>7,271</u>	<u>20,367</u>

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Gain on disposal of property, plant and equipment	169	–
Net foreign exchange (loss) gain	(438)	94
Fair value (loss) gain on investment properties	(500)	1,400
	<u>(769)</u>	<u>1,494</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interests on bank and other borrowings	110	1,148
Interests on lease liabilities	749	1,266
Interest on corporate bonds	6,959	–
	<u>7,818</u>	<u>2,414</u>

8. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	2,749	5,635
Depreciation of right-of-use assets	<u>12,252</u>	<u>17,399</u>

9. TAXATION

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Current tax (credit) charge:		
Hong Kong	(139)	325
Other jurisdictions	<u>(815)</u>	<u>263</u>
	(954)	588
Deferred tax:		
Current year	<u>(657)</u>	<u>–</u>
	<u>(1,611)</u>	<u>588</u>

10. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period for the purpose of calculating basic and diluted (loss) earnings per share	<u>(8,052)</u>	<u>11,238</u>

Number of shares

	Six months ended 30 June	
	2020	2019
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss) earnings per share	<u>5,219,541,190</u>	<u>5,219,541,190</u>

For the six months ended 30 June 2020, 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.

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.

11. DIVIDEND

No dividend was paid or declared during the six months ended 30 June 2020 and 2019 nor has any dividend been proposed since the end of the reporting period.

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 <i>HK\$'000</i> (unaudited)	At 31 December 2019 <i>HK\$'000</i> (audited)
Trade receivables	5,999	15,225
Less: Allowance for ECL	<u>(53)</u>	<u>(55)</u>
	5,946	15,170
Utility and rental deposits	6,979	10,680
Interest receivables	355	2,795
Prepayments and other receivables	<u>4,821</u>	<u>6,132</u>
	18,101	34,777
Less: Amount due more than one year shown under non-current assets	<u>(6,180)</u>	<u>(6,208)</u>
Amount shown under current assets	<u>11,921</u>	<u>28,569</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 2020 <i>HK\$'000</i> (unaudited)	At 31 December 2019 <i>HK\$'000</i> (audited)
Within 30 days	3,132	5,223
31 – 60 days	1,219	1,986
61 – 90 days	85	1,527
91 days to 1 year	658	3,747
Over 1 year	<u>852</u>	<u>2,687</u>
	<u>5,946</u>	<u>15,170</u>

The Group has applied simplified approach on non-credit impaired trade receivables from contracts with customers to provide for ECL. In determining the recoverability of a trade receivable from contract with customers, the Group considers changes in the credit quality of the trade receivable from contract with customers from the date of credit initially granted up to the end of the reporting period, management's historical experience on the customers' settlement patterns and on-going business relationships with the Group.

13. TRADE AND OTHER PAYABLES

	At 30 June 2020 <i>HK\$'000</i> (unaudited)	At 31 December 2019 <i>HK\$'000</i> (audited)
Trade payables	463	6,867
Advance payments from customers	326	2,561
Accrued charges	3,583	15,027
Other payables	10,090	6,895
	<u>14,462</u>	<u>31,350</u>

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

	At 30 June 2020 <i>HK\$'000</i> (unaudited)	At 31 December 2019 <i>HK\$'000</i> (audited)
Within 30 days	454	5,611
31 – 60 days	2	376
61 – 90 days	–	15
91 days to 1 year	7	101
Over 1 year	–	764
	<u>463</u>	<u>6,867</u>

14. 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\$8,982,000 (for the six months ended 30 June 2019: HK\$42,671,000) and repaid HK\$12,529,000 (for the six months ended 30 June 2019: HK\$101,207,000). The loans carry interest at variable market rates ranging from 2.17% to 4.75% per annum (31 December 2019: 4.25% to 5.53% per annum).

On 2 February 2020, the Group issued unsecured corporate bonds amounted to HK\$171,600,000 in Hong Kong for the investment in an associate. The unsecured corporate bonds have maturity of one and half years until August 2021 and carry interest at 10% per annum. During the six months ended 30 June 2020, the Group early repaid HK\$41,600,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Car Division

Revenue

For the first half of 2020, the Car Division's revenue decreased by 58.2% to HK\$55.8 million (2019: HK\$133.5 million).

In Hong Kong, the threat of COVID-19 pandemic and the necessary anti-epidemic measures seriously disrupted a wide range of local economic activities. The overall revenue from Hong Kong recorded a drop of 53.8% to HK\$53.5 million (2019: HK\$115.9 million) primarily due to the decrease of new Maserati car sales. In Macau, the Group recorded a revenue of HK\$1.7 million (2019: HK\$1.4 million).

During the period, the Group has streamlined its Pre-Delivery Inspection (“**PDI**”) services operation in mainland China and reduce its scope of business to a minimum due to the slowdown of economies of the People's Republic of China (the “**PRC**”). Hence, the revenue attributable to PDI services in mainland China decreased to HK\$0.6 million (2019: HK\$16.2 million).

Cost of Sales and Gross Profit

Gross profit margin increased by 17.8 percentage points to 44.1%. The increase is mainly due to the change of revenue proportion between car sales and after-sales services in this period. For the period ended 30 June 2020, the proportion of after-sales services revenue which contributed higher gross margin increased to 50.1% (2019: 33.4%) of the total revenue of Car Division.

Our gross profit decreased from HK\$35.1 million to HK\$24.6 million owing to the decrease in car unit sales of Maserati in Hong Kong operation as well as the change of business scope in Mainland China in 2020.

Other Income

For the six months ended 30 June 2020, other income amounted to HK\$7.2 million (2019: HK\$20.4 million). The decrease of HK\$13.2 million was mainly caused by the drop of sale and marketing support from the supplier.

Other Gains and Losses

Other gains and losses amounted to a net gain of HK\$0.1 million (2019: gain of HK\$0.2 million) which mainly represented gain on disposal of property, plant and equipment of HK\$0.2 million (2019: nil), net off with net foreign exchange loss of HK\$0.1 million (2019: 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\$33.0 million (2019: HK\$55.1 million), which accounted for 59.1% (2019: 41.3%) of revenue. The net decrease of HK\$22.1 million was mainly due to decrease in depreciation of right-of-use assets, marketing expenses and staff related cost resulting from our cost optimization and restructuring plan.

Finance Costs

Finance costs during the period were decreased to HK\$0.8 million (2019: HK\$2.4 million) which included interest on lease liabilities of HK\$0.7 million (2019: HK\$1.3 million).

Financial Investments and Services and Property Investment Divisions

Operating Results

As at 30 June 2020, the loan receivables narrowed to HK\$26.6 million from HK\$70.1 million as at 31 December 2019. Hence, the revenue of Financial Investments and Services Division for the period ended 30 June 2020 decreased to HK\$2.0 million (2019: HK\$5.3 million), representing a decrease of HK\$3.3 million. Segment loss increased by HK\$3.8 million to HK\$0.1 million (2019: profit HK\$3.7 million).

Furthermore, the Property Investment division recorded a rental income of HK\$1.0 million for leasing the property of the Group to a third party (2019: HK\$0.9 million) and recorded a fair value loss of HK\$0.5 million on the investment properties (2019: gain of HK\$1.4 million). For the indirect investment in an office building in Glasgow, Scotland, the share of profit from such investment was HK\$1.3 million (2019: HK\$9.9 million). The decrease of HK\$8.6 million was mainly owing to the drop of the share of the fair value gain of the property from HK\$7.8 million in the first half of 2019 to nil in the reporting period.

Life Science Investment

On 29 January 2020, the Group entered into a subscription agreement for subscription of 51,847,997 series A preferred shares of Chime Biologics Limited (“**CBL**”) (the “**Series A Preferred Shares**”) at a consideration of US\$32 million (the “**Subscription**”). The Subscription was completed in February 2020 and CBL becomes an associate company of the Group. This investment in associate is measured at fair value through profit or loss in accordance with HKFRS 9 “Financial Instruments”. At 30 June 2020, the aggregate carrying amount of this investment is HK\$248 million. CBL is a provider of biologics contract development and manufacturing organisation (the “**CDMO**”) services to biotech and pharmaceutical companies with industry-leading expertise. It offers fully integrated biologics CDMO platform: high quality comprehensive service capabilities with global qualifications. Its state-of-the-art advanced facility demonstrated solid large-scale manufacturing track record and expansion potential.

Loss Attributable to Shareholders

Loss attributable to shareholders of the Company for the six months ended 30 June 2020 was HK\$8.1 million (2019: profit HK\$11.2 million). It was primarily caused by the decrease in sales in Car Division, decrease in share of result of an associate and increase in finance costs.

Liquidity and Financial Resources

Cash Flow

During the period, the Group financed its operations and investments through cash generated from the Group’s operations, as well as issuance of corporate bonds. We have made a net repayment of bank borrowings of HK\$3.5 million and bonds of HK\$41.6 million.

Cash and Cash Equivalents

As at 30 June 2020, the Group had cash and cash equivalents (including pledged bank deposits) of HK\$92.4 million as compared with HK\$148.0 million as at 31 December 2019, which were mainly denominated in Hong Kong dollars (as to 86%), Renminbi (as to 13%) and U.S. dollars (as to 1%).

Bank and Other Borrowings

As at 30 June 2020, the Group had bank and other borrowings totalling HK\$131.8 million (31 December 2019: HK\$5.3 million), of which HK\$130.0 million was repayable more than one year. The Group debt to equity ratio for the six months ended 30 June 2020 increased to 29.7% from 1.2% for the year ended 31 December 2019 based on the total of current and non-current bank and other borrowings of HK\$131.8 million (31 December 2019: HK\$5.3 million) and total equity of HK\$443.0 million (31 December 2019: HK\$456.9 million). The increase is mainly caused by issuance of unsecured corporate bonds on 2 February 2020 amounted to HK\$171.6 million. The unsecured corporate bonds have maturity of one and a half years and carry interest at 10% per annum. During the reporting period, the Group incurred bond interest expense of HK\$7 million and repaid HK\$41.6 million, the remaining bonds balance as at 30 June 2020 is HK\$130.0 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 2020, the Group had outstanding loan lent to customers totalling HK\$26.6 million (31 December 2019: HK\$70.1 million), which carry on interest rate range from 8% to 10% per annum and were repayable within twelve months.

Foreign Exchange Exposure

The Group currently does not have a foreign currency hedging policy. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Pledge of Assets

As at 30 June 2020, certain of the Group's properties, bank deposits, inventories totaling HK\$100.6 million (31 December 2019: HK\$100.5 million) were pledged as securities for relevant bank loans and other bank facilities granted.

CAPITAL EXPENDITURES, COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2020, the Group had HK\$0.03 million capital commitment (31 December 2019: HK\$0.67 million), all capital commitments as at 30 June 2020 and 31 December 2019 are authorized but not contracted for.

As at 30 June 2020, the Group had no material contingent liabilities.

EVENT AFTER THE REPORTING PERIOD

- (i) On 27 July 2020, the Group has appointed Mr. HUANG Zuie-Chin and Mr. NG Siu Wai as executive Directors to form a new life science division. On the same date, the Company has granted share options to certain eligible grantees for a total of 982,000,000 ordinary shares of HK\$0.02 each of the Company under the share option scheme adopted by the Company on 28 May 2012. As the total number of shares to be issued upon exercise of the Conditionally Granted Options exceeds 1% of the shares in issue, pursuant to Rule 17.03(4) of the Listing Rules, the grant of the respective Conditionally Granted Options must be approved by shareholders of the Company at a special general meeting. Details of the Grant of Share Options are set out in the announcement of the Company dated 27 July 2020.
- (ii) Reference is made to the Company's announcement dated 29 January 2020 concerning the CBL Subscription by Rainbow Surplus Investments Limited ("**Rainbow Surplus**"), a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company, which has agreed to subscribe for certain Series A Preferred Shares pursuant to the CBL Subscription Agreement. For details, please see the announcement dated 29 January 2020. On 19 August 2020, the Company provided further information on the Subscription by Rainbow Surplus that the drag along right attaching to the Series A Preferred Shares enjoyed by Rainbow Surplus (the "**Drag Along Right**") constitutes an option. Pursuant to Rule 14.74(1) of the Listing Rules, as the exercise of the Drag Along Right is not at the discretion of the Company, the grant of Drag Along Right is subject to the approval by the shareholders of the Company at a special general meeting. For details of which are set out in the supplemental announcement of the Company dated 19 August 2020.

HUMAN RESOURCES AND CHARITY

As at 30 June 2020, the Group employed a total of 62 employees in Hong Kong and Macau. 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, COVID-19 pandemic became apparent since January 2020 and subsequently further developed to a worldwide pandemic. We implemented a variety of pandemic control measures to ensure our employees and customers can stay safe, such as sanitize regularly touchpoints at offices and common areas, mandatory wearing masks and maintain social distancing, allow work from homes and stagger lunch hours, etc..

As always, 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.

In this unprecedented challenge caused by the COVID-19 pandemic, the Group continues to make contributions to local communities through participating in charitable activities.

BUSINESS REVIEW

Maserati

The economic recession deepened in Hong Kong in the first half of 2020, as the threat of COVID-19 pandemic and the necessary anti-epidemic measures seriously disrupted a wide range of local economic activities. With the disease evolving into a pandemic in the second quarter of 2020, the economic fallout became even more severe. Retail sales in Hong Kong plunged 36.5% year-on-year for the first five months of 2020. The Maserati segment dropped about 40% in the first half of 2020 compared with the same period last year, despite major competitor's new model delivery in the first quarter of 2020.

The number of vehicles delivered to Maserati customers fell short of 70% of the prior-year figure in the first half of 2020 amid a sharp contraction in the overall market due to the outbreak of COVID-19 pandemic. Maserati's share of the segment decreased from 12% to 7% due to new model deliveries from the major competitors.

Resources were more centralized with reduced operation expenses attributed by the closure of Kowloon Bay Showroom. Together with restructured team, the new moves enhanced overall work efficiency and cost effectiveness.

The increasing spread of the COVID-19 pandemic and resulting social distancing measures severely disrupted the marketing activities. Under the restrictions and quarantine measures, the team had adjusted the marketing tools to digital platforms and utilize online communications to engage with potential prospects. With organized and well-executed customer relation management guidelines from the brand, the overall customer satisfaction index sustained at 97%.

Following the new Ghibli Hybrid launched online in the second quarter 2020, the long anticipated new super car MC20 will be unveiled in September 2020, both two models will also be available for Hong Kong with delivery starting from 2021.

For Maserati aftersales service, the average throughput dropped 12% in the first half of 2020, comparing to 2019 full year. Overall sales from January to June 2020 recorded a 7.8% decline year on year. Here, too, the spread of the COVID-19 pandemic had a negative impact overall.

However with the success of devoted sales efforts, the average spending of each car increased by 18%. Operation workflow were refined resulting work efficiency of workshop improved from 5.92 days in 2019 to 2.89 days in the first half of 2020. Workshop productivity and efficiency increased over 26% and 30% respectively.

Sales of service package and extended warranty continued to be popular. A 47% growth is recorded for extended warranty while sales of service package remains a stable performance year on year.

Series of service campaigns during the COVID-19 pandemic were launched to provide added value services to our customers such as “Same day servicing with vehicle collection & delivery”, “Car Interior Anti-bacteria Coating”.

For our operation in Macau, the overall Maserati segment sales dropped 37% in the first half of 2020 year on year as a consequence of the debilitating market conditions arising from the COVID-19 pandemic. Market share of Maserati was 7.1%. On aftersales business, the Group strived to achieve 80% of target in the first three months in 2020. Yet, with the lockdown in the PRC, service income from cross-boundary vehicle was adversely affected, resulting in a 20% drop in the second quarter of 2020.

Pre-Delivery Inspection

As indicated in the Company’s annual reports 2019 and 2018, because of the decrease in number of Maserati which underwent for PDI service in mainland China in 2019 and 2018, the revenue attributable to PDI service dropped in mainland China. The Group started discussion with Maserati for a new service agreement and explored new business model to cope with the new business situation.

In April 2020, a new service agreement was made by Maserati with the Group and a local partner (“**Local Partner**”). As different from the former service agreement, the Group ceased to be sole PDI service provider to Maserati under such new agreement. Having regard to the slowdown of the economies of the PRC and other parts of the world as a result of (among other causes) the COVID-19 pandemic and the trade conflicts between the US and the PRC, the Group plans to reduce its scope of business to a minimum, so that the Local Partner will take up most of the PDI services to further enhance the overall efficiency. For the six months ended 30 June 2020, the Group recorded HK\$0.6 million as its revenue attributable to PDI services in mainland China.

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 uncertainties of the Sino-US trade dispute, the ongoing political turbulence in Hong Kong and the threat of COVID-19 pandemic create economic uncertainty and challenges. The Group continue adopt a prudent and cautious approach when conducting our financing business, the six months ended 30 June 2020 loan portfolio narrowed to HK\$26.6 million from HK\$70.1 million as at 31 December 2019. Hence, our revenues from financial investments and services business decreased to HK\$2 million (2019: HK\$5.3 million).

For the property investment business, the Group continued to earn a rental income of HK\$1 million (2019: HK\$0.9 million) from leasing the investment property. The Group's indirect investment in an office building in Glasgow, Scotland also allowed us to enjoy a stable income stream from the property's rental revenue. The share of profit from such investment for the period ended 30 June 2020 was HK\$1.3 million (2019: HK\$9.9 million). The decrease of HK\$8.6 million was mainly owing to the drop of the share of the fair value gain of the property from HK\$7.8 million in the first half of 2019 to nil in the reporting period.

Life Sciences Investment

During the reporting period, the Group participated in the Series A Preferred Shares subscription of CBL. The subscription was completed in February 2020 and CBL becomes an associate company of the Group. CBL is a provider of biologics CDMO services to biotech and pharmaceutical companies with industry-leading expertise. It offers fully integrated biologics CDMO platform: high quality comprehensive service capabilities with global qualifications. Its state-of-the-art advanced facility demonstrated solid large-scale manufacturing track record and expansion potential. Based on the investment in CBL, the Group will continue to explore other high-quality investment opportunities along the CDMO value chain.

On 27 July 2020, the Group has appointed Mr. HUANG Zuie-Chin and Mr. NG Siu Wai as executive Directors to form a new life science division. The new management members have a combined 40 plus years of experience in product development, commercialization, investment, fund raising for multiple life sciences companies.

OUTLOOK

Taking into consideration the current situation of Hong Kong, 2020 will continue to 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 soon. The Group will continue to explore different business opportunities include but not limited to life sciences and healthcare industry 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 2020 (2019: 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 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 of 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 2020, 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 2020.

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.

REVIEW OF INTERIM RESULTS

The interim results of the Group for the six months ended 30 June 2020 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 2020, 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 2020 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, 27 August 2020

As at the date of this announcement, the Board comprises Mr. CHONG Tin Lung Benny (Executive Chairman and Chief Executive Officer), Mr. LAM Chi Yan, Mr. HUANG Zuie-Chin and Mr. NG Siu Wai 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.