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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 2022

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 2022 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	Notes	Continuing operations		Discontinued operation		Total	
		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
		2022	2021	2022	2021	2022	2021
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from goods and services		-	-	-	51,426	-	51,426
Rental income		14,560	8,050	-	-	14,560	8,050
Interest income from loan receivables		-	1,118	-	-	-	1,118
Total revenue		14,560	9,168	-	51,426	14,560	60,594
Cost of sales and services		(2,736)	(1,449)	(349)	(43,459)	(3,085)	(44,908)
Gross profit		11,824	7,719	(349)	7,967	11,475	15,686
Other income	4	58	-	322	2,033	380	2,033
Other gains and losses	5	(90,909)	12,547	-	2,368	(90,909)	14,915
Reversal of impairment losses under expected credit loss (“ECL”) model, net		-	5	-	6	-	11
Selling and distribution costs		-	-	-	(7,881)	-	(7,881)
Administrative expenses		(11,157)	(6,841)	(267)	(8,411)	(11,424)	(15,252)
Other expenses	6	(8,702)	-	-	-	(8,702)	-
Finance costs	7	(6,453)	(5,016)	-	(299)	(6,453)	(5,315)
Share of result of an associate accounted for using equity method		-	768	-	-	-	768
(Loss) profit before taxation		(105,339)	9,182	(294)	(4,217)	(105,633)	4,965
Taxation	8	(1,373)	(132)	(270)	-	(1,643)	(132)
(Loss) profit for the period	10	(106,712)	9,050	(564)	(4,217)	(107,276)	4,833

* For identification purpose only

	Total	
	Six months ended 30 June	
	2022	2021
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
(Loss) profit for the period attributable to owners of the Company		
– from continuing operations	(109,383)	3,120
– from discontinued operation	(564)	(4,217)
	(109,947)	(1,097)
Profit for the period attributable to non-controlling interests		
– from continuing operations	2,671	5,930
(Loss) profit for the period	(107,276)	4,833
Loss per share (from continuing and discontinued operations)		
– Basic	11 (HK2.08 cents)	(HK0.02 cents)
– Diluted	11 (HK2.08 cents)	(HK0.02 cents)
(Loss) earning per share (from continuing operations)		
– Basic	11 (HK2.07 cents)	HK0.06 cents
– Diluted	11 (HK2.07 cents)	HK0.06 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period	<u>(107,276)</u>	<u>4,833</u>
Other comprehensive (expense) income		
<i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(22,814)</u>	<u>1,614</u>
Other comprehensive (expense) income for the period	<u>(22,814)</u>	<u>1,614</u>
Total comprehensive (expense) income for the period	<u><u>(130,090)</u></u>	<u><u>6,447</u></u>
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	<u>(120,754)</u>	548
Non-controlling interests	<u>(9,336)</u>	<u>5,899</u>
	<u><u>(130,090)</u></u>	<u><u>6,447</u></u>
Total comprehensive (expense) income for the period attributable to owners of the Company:		
– from continuing operations	<u>(120,190)</u>	4,534
– from discontinued operation	<u>(564)</u>	<u>(3,986)</u>
	<u><u>(120,754)</u></u>	<u><u>548</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

			At 30 June 2022		At 31 December 2021
	<i>Notes</i>		<i>HK\$'000</i> (unaudited)		<i>HK\$'000</i> (audited)
Non-current assets					
Investment properties			530,115		579,155
Property, plant and equipment			2,139		2,684
Investment of an associate measured at fair value through profit or loss (“FVTPL”)			156,928		249,507
Other financial asset at FVTPL			14,056		14,703
Rent and other receivables	13		10,851		12,948
			714,089		858,997
Current assets					
Inventories			1,143		1,492
Rent and other receivables	13		3,401		2,551
Pledged bank deposits			905		–
Bank balances and cash			50,879		39,271
			56,328		43,314
Current liabilities					
Trade and other payables	14		16,455		16,705
Tax payable			56		38
Bank and other borrowings	15		334,147		–
Loan from a non-controlling member of a subsidiary	16		8,746		–
			359,404		16,743
Net current (liabilities) assets			(303,076)		26,571
Total assets less current liabilities			411,013		885,568

		At 30 June 2022 <i>HK\$'000</i> (unaudited)	At 31 December 2021 <i>HK\$'000</i> (audited)
Capital and reserves			
Share capital		105,850	105,850
Reserves		<u>168,494</u>	<u>285,812</u>
Equity attributable to owners of the Company		274,344	391,662
Non-controlling interests		<u>94,054</u>	<u>103,390</u>
Total equity		<u>368,398</u>	<u>495,052</u>
Non-current liabilities			
Bank and other borrowings	15	–	334,529
Loan from a non-controlling member of a subsidiary	16	–	9,205
Promissory note	17	38,988	44,500
Deferred taxation		<u>3,627</u>	<u>2,282</u>
		<u>42,615</u>	<u>390,516</u>
		<u>411,013</u>	<u>885,568</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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**”).

As at 30 June 2022, the Group had net current liabilities of HK\$303,076,000. In preparing the condensed consolidated financial statements, the directors of the Company (the “**Directors**”) have given careful consideration to the future liquidity and financial position of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and considerations have been taken by the Directors to mitigate the liquidity position of the Group and to improve the financial position of the Group, and the plans and considerations are as follows.

The Group has planned to renew the existing borrowing of HK\$302,996,000, which is due for repayment in May 2023. As at 30 June 2022, the Group’s investment properties with fair value of HK\$468,015,000 are pledged with this borrowing. In view of sufficient headroom between the amount of the borrowing and the fair value of pledged investment properties, the Directors are of the opinion that the renewal of existing borrowing from existing financial institution is highly probable because the existing financial institution has indicated its interest in renewing the borrowing, subject to further negotiation on the terms.

In addition, the Group has a term loan of HK\$31,000,000, which contains a repayment on demand clause and HK\$29,450,000 of which is due for repayment after twelve months from the reporting date according to its repayment schedule. As at 30 June 2022, the Group’s investment properties with fair value of HK\$62,100,000 are pledged with this term loan. In view of continuous compliance of loan covenants throughout the reporting period and sufficient headroom between the amount of the term loan and the fair value of pledged investment properties, the Directors are of the opinion that there is no indication for the Group to be demanded for repayment of the term loan before its scheduled maturity dates.

The Directors are of the opinion that, taking into account the above-mentioned plans and considerations, the Group will have sufficient working capital to meet its financial obligations as they fall due within twelve months from the date of approval of the condensed consolidated financial statements. Accordingly, the Directors are satisfied that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

1A. SIGNIFICANT EVENT IN THE CURRENT INTERIM PERIOD

During the current interim period, there was a fair value loss on investment of an associate measured at FVTPL of HK\$92,579,000.

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, as appropriate.

Other than the change in accounting policy resulting from agenda decision of the International Financial Reporting Standards Interpretations Committee (the “**Committee**”) of the International Accounting Standards Board (the “**IASB**”), the accounting policies applied and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June, 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December, 2021.

2.1 Application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.2 Application of the agenda decision of the Committee – Costs necessary to sell inventories

In addition, the Group applied the agenda decision of the Committee of the IASB issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

2.2.1 Accounting policy

The application of the Committee’s agenda decision results in change in accounting policy for inventories:

Inventories

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

2.2.2. Transition and summary of effects

The application of the Committee’s agenda decision has had no material impact on the Group’s condensed consolidated financial statements and performance.

3. SEGMENT INFORMATION

During the six months ended 30 June 2022, the Group has two operating segments under HKFRS 8 “Operating Segments” from continuing operations as follows:

- (i) Financial investments and services – Investments in securities and provision for financing and corporate finance services; and
- (ii) Property investment.

Segment profit represents the profit earned by each segment without allocation of share of result of an associate accounted for using equity method, fair value loss on investment of an associate measured at FVTPL, share-based payments, 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.

An operating segment regarding the cars business was discontinued in the prior period. The segment revenue and results reported on the next pages do not include any amounts for this discontinued operation, which is described in more details in note 9.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

Six months ended 30 June 2022 (unaudited)

Continuing operations

	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE			
Group revenue	–	14,560	14,560
SEGMENT RESULTS			
Segment (loss) profit	(170)	6,893	6,723
Fair value loss on investment of an associate measured at FVTPL			(92,579)
Share-based payments			(3,436)
Unallocated corporate expenses			(13,768)
Finance costs			(2,279)
Loss before taxation			<u>(105,339)</u>

Note: As at 30 June 2022, the management continues to operate the financial investments and services and will continue to explore business opportunity in this segment.

Six months ended 30 June 2021 (unaudited)

Continuing operations

	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
SEGMENT REVENUE			
Group revenue	1,118	8,050	9,168
SEGMENT RESULTS			
Segment profit	458	15,365	15,823
Share of result of an associate accounted for using equity method			768
Share-based payments			(1,449)
Unallocated corporate expenses			(3,141)
Finance costs			(2,819)
Profit before taxation			<u>9,182</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 2022 (unaudited)

	Financial investments and services HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
Assets			
Segment assets	–	545,867	545,867
Assets relating to discontinued operation			1,143
Total segment assets			547,010
Bank balances and cash			50,879
Investment of an associate measured at FVTPL			156,928
Other financial asset at FVTPL			14,056
Unallocated corporate assets			1,544
Consolidated assets			770,417
Liabilities			
Segment liabilities	–	318,536	318,536
Liabilities relating to discontinued operation			6,800
Total segment liabilities			325,336
Promissory note			38,988
Bank borrowing			31,150
Deferred taxation			3,627
Tax payable			56
Unallocated corporate liabilities			2,862
Consolidated liabilities			402,019

At 31 December 2021 (audited)

	Financial investments and services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets			
Segment assets	–	596,998	596,998
Assets relating to discontinued operation			1,492
Total segment assets			598,490
Bank balances and cash			39,271
Investment of an associate measured at FVTPL			249,507
Other financial asset at FVTPL			14,703
Unallocated corporate assets			340
Consolidated assets			902,311
Liabilities			
Segment liabilities	–	350,343	350,343
Liabilities relating to discontinued operation			9,699
Total segment liabilities			360,042
Promissory note			44,500
Deferred taxation			2,282
Tax payable			38
Unallocated corporate liabilities			397
Consolidated liabilities			407,259

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

- all assets are allocated to operating segments other than unallocated corporate assets, investment of an associate measured at FVTPL, other financial asset at FVTPL and bank balances and cash;
- all liabilities are allocated to operating segments other than unallocated corporate liabilities, promissory note, deferred taxation, tax payable and bank borrowing.

4. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Government subsidy	56	–
Bank interest income	2	–
	<u>58</u>	<u>–</u>

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Net foreign exchange (loss) gain	(2)	418
Fair value loss on investment of an associate measured at FVTPL	(92,579)	–
Fair value gain on investment properties	1,672	12,129
	<u>(90,909)</u>	<u>12,547</u>

6. OTHER EXPENSES

On 26 November 2021, Racing Time Limited, an indirect wholly owned subsidiary of the Company and VMS Holdings Limited entered into an agreement in relation to the acquisition of the entire issued share capital of VMS Auto Italia Fin Services Holdings Limited (the “**Acquisition**”). Other expenses represent legal and professional fee incurred during the period in respect of the Acquisition.

7. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Interests on bank and other borrowings	3,874	1,978
Interest on loan from a non-controlling member of a subsidiary	450	219
Interest on promissory note	1,664	1,090
Interest on corporate bonds	–	1,729
Loan arrangement fee	465	–
	<u>6,453</u>	<u>5,016</u>

8. TAXATION

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Current tax charge:		
Hong Kong	28	132
Deferred taxation	1,345	–
	<u>1,373</u>	<u>132</u>

9. DISCONTINUED OPERATION

On 10 June 2021, the Group entered into a transitional services and settlement agreement with Maserati in relation to the termination of dealership. The termination was effective on 26 April 2021. The Group's cars business was treated as discontinued operation.

The results for the period from the discontinued cars business were set out in condensed consolidated statement of profit or loss on page 1.

During the six months ended 30 June 2021, the cars business contributed HK\$23,961,000 to the Group's net operating cash flows, received HK\$2,259,000 in respect of investing activities and paid HK\$18,544,000 in respect of financing activities.

10. (LOSS) PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Depreciation of property, plant and equipment	<u>327</u>	<u>161</u>

11. (LOSS) EARNING PER SHARE

From continuing operations

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period attributable to owners of the Company (from continuing and discontinued operations)	(109,947)	(1,097)
Less: Loss for the period from discontinued operation	<u>564</u>	<u>4,217</u>
(Loss) profit for the period for the purpose of calculating basic and diluted (loss) earning per share from continuing operations	<u>(109,383)</u>	<u>3,120</u>

Number of shares

	Six months ended 30 June	
	2022	2021
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earning per share	5,292,515,390	5,291,172,296
Effect of dilutive potential ordinary shares: Share options issued by the Company	<u>–</u>	<u>39,221,523</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss) earning per share	<u>5,292,515,390</u>	<u>5,330,393,819</u>

For the six months ended 30 June 2022, the computation of diluted loss per share did 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.

From discontinued operation

For the six months ended 30 June 2022, basic and diluted loss per share for the discontinued operation is HK0.01 cents per share (for the six months ended 30 June 2021: HK0.08 cents), based on the loss for the period from the discontinued operation of approximately HK\$564,000 (for six months ended 30 June 2021: HK\$4,217,000) and the denominators detailed above for both basic and diluted (loss) earning per share.

12. DIVIDEND

No dividend was paid or declared during the six months ended 30 June 2022 and 2021 nor has any dividend been proposed since the end of the reporting period.

13. RENT AND OTHER RECEIVABLES

	At 30 June 2022 HK\$'000 (unaudited)	At 31 December 2021 HK\$'000 (audited)
Rent receivables	13,254	14,827
Utility and rental deposits	123	123
Prepayments and other receivables	875	549
	14,252	15,499
Less: Amount due more than one year shown under non-current assets	(10,851)	(12,948)
Amount shown under current assets	3,401	2,551

Rent receivables

The Group's rental income are based on effective accrued rentals after taking into account of rent free period which are recognised under straight line method and recorded as rent receivables. Rental income is received from tenants in Scotland and in Hong Kong on a quarter basis and monthly basis, respectively. Included in the Group's rent receivables as at 30 June 2022 are (i) accrued rent receivables of HK\$10,218,000 over the rent free periods (At 31 December 2021: HK\$11,212,000); (ii) lease incentives paid of HK\$3,036,000 (At 31 December 2021: HK\$3,615,000) represent amount of rent incentives granted to tenants, which are to be recovered through future rental income. The amounts that are expected to be realised after twelve months after the reporting period are presented as non-current assets.

No credit period is granted to tenants of rental of premises. There is no past due rent receivables as at 30 June 2022 and 31 December 2021.

14. TRADE AND OTHER PAYABLES

	At 30 June 2022 HK\$'000 (unaudited)	At 31 December 2021 HK\$'000 (audited)
Trade payables	10	10
Advance payments from customers	236	236
Accrued charges	3,429	2,903
Receipt in advance for rental income	5,201	5,114
Other payables	7,579	8,442
	<u>16,455</u>	<u>16,705</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 2022 HK\$'000 (unaudited)	At 31 December 2021 HK\$'000 (audited)
Over 1 year	<u>10</u>	<u>10</u>

15. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained a new loan from a bank amounting to HK\$31,000,000 (for the six months ended 30 June 2021: HK\$ nil) which was secured by an investment property in Hong Kong and pledged bank deposits. The new loan carries interest at variable market rates of Hong Kong Interbank Offered Rate plus 2% per annum and is repayable in instalments over a period of 3 years and with a repayment on demand clause. During the six months ended 30 June 2022, the Group has not repaid any bank borrowing (for the six months ended 30 June 2021: repaid of HK\$10,316,000). The bank and other borrowings are subject to some covenants and the Group has complied with the covenants throughout the reporting period.

Through the acquisition of Dakota RE II Limited, other borrowing increased by HK\$339,203,000 for the six months ended 30 June 2021, which was secured by an investment property in Scotland. The secured borrowing has maturity of three years until May 2023 and carries interest at 2.3% per annum.

16. LOAN FROM A NON-CONTROLLING MEMBER OF A SUBSIDIARY

Through the acquisition of Dakota RE II Limited, a loan from a non-controlling member of a subsidiary increased by HK\$8,681,000 for the six months ended 30 June 2021. The unsecured loan will be matured in May 2023 or after full repayment of the other borrowing, whichever earlier, and carries interest at 10% per annum.

17. PROMISSORY NOTE

On 25 March 2021, the Group issued unsecured promissory note amounting to HK\$53,500,000 in Hong Kong to acquire additional equity interest of 27.49% in Dakota RE II Limited. The unsecured promissory note has maturity of three years until March 2024 and carries interest at 8% per annum. During the six months ended 30 June 2022, the Group early repaid principal of HK\$7,000,000 (for the six months ended 30 June 2021: HK\$9,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Property Investment Division

During the period ended 30 June 2022, the Property Investment Division recorded a rental income of HK\$14.6 million for leasing the properties of the Group to third parties in Hong Kong and Scotland (2021: HK\$8.1 million). The increase of HK\$6.5 million rental income was mainly contributed by the recognition of income derived from the investment in Capella Building (“**Capella**”) in Scotland for the full six months period. Capella is indirectly held by Dakota RE II Limited which became a subsidiary of the Group after the Group increased its equity interest to 54.98% from 27.49% on 25 March 2021.

Financial Investments and Services Division

As at 30 June 2022, the loan receivables narrowed to nil from HK\$14.0 million as at 30 June 2021. Hence, the revenue of Financial Investments and Services Division’s for the period ended 30 June 2022 decreased to nil (2021: HK\$1.1 million).

Cost of Sales and Gross Profit

Gross profit decreased by HK\$4.2 million to HK\$11.5 million (2021: HK\$15.7 million). The decrease was mainly due to the close down of Maserati Dealership Business in April 2021.

Gross profit margin increased by 52.9 percentage points to 78.8% (2021: 25.9%). The increase was mainly contributed by higher gross margin of Property Investment Division of 81.2% and the close down of Maserati Dealership Business that generated a lower gross margin (2021: 15.5%).

Other Income

For the six months ended 30 June 2022, other income amounted to HK\$0.4 million (2021: HK\$2.1 million). The decrease of HK\$1.7 million was mainly caused by decrease in commission income by HK\$1.6 million due to close down of Maserati Dealership Business in April 2021.

Other Gains and Losses

Other gains and losses amounted to a net loss of HK\$90.9 million (2021: net gain of HK\$14.9 million) which mainly represented unrealized fair value loss of investment of an associate of HK\$92.6 million measured at fair value through profit or loss and fair value gain of investment properties in Hong Kong and Scotland of HK\$1.7 million (2021: HK\$12.1 million).

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs and administrative expenses during the period aggregated to HK\$11.4 million (2021: HK\$23.1 million), which accounted for 78.5% (2021: 38.2%) of revenue. The net decrease of HK\$11.7 million was mainly due to decrease in depreciation of right-of-use assets, legal and professional fee and staff related cost resulting from our cost optimization and restructuring plan.

Other expenses

On 26 November 2021, Racing Time Limited (the “**Purchaser**”), an indirect wholly-owned subsidiary of the Company and VMS Holdings Limited (the “**Vendor**”) entered into an agreement in relation to the acquisition of the entire issued share capital of VMS Auto Italia Fin Services Holdings Limited (the “**Target Company**”) (the “**Acquisition**”). Other expenses represent legal and professional fee incurred during the period in respect of the Acquisition.

Finance Costs

Finance costs during the period were increased to HK\$6.5 million (2021: HK\$5.3 million) which was mainly caused by increase in interest expense by HK\$2.0 million to HK\$4.2 million (2021: HK\$2.2 million) incurred by the registered owner of Capella which has become a subsidiary of the Group since 25 March 2021 and interest expense and arrangement fee of HK\$0.6 million of a bank loan obtained during the period ended 30 June 2022. The increase of finance costs was partially offset by reduced bond interest expense of HK\$1.7 million since the bond principal has been fully repaid during the year ended 31 December 2021.

Life Science Investment

For the period ended 30 June 2022, Chime Biologics Limited (“**CBL**”) generated unaudited consolidated revenue of US\$21.4 million (2021: US\$6.7 million) and recorded unaudited consolidated earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) of US\$3.0 million (2021: negative EBITDA of US\$3.2 million). At 30 June 2022, the fair value of this investment decreased to HK\$157 million (June 2021: HK\$248 million) and represents around 20.4% (June 2021: 25.9%) of the total assets of the Group. The decrease was mainly caused by the unfavorable market condition during the period. The Group presently intends to hold such investment as long-term investment.

Loss Attributable to Shareholders

Loss attributable to shareholders of the Company for the six months ended 30 June 2022 was HK\$109.9 million (2021: HK\$1.1 million). It was primarily caused by an unrealized fair value loss of investment of an associate of HK\$92.6 million measured at fair value through profit or loss and the decrease of fair value gain of investment properties by HK\$10.4 million to HK\$1.7 million (2021: HK\$12.1 million).

Liquidity and Financial Resources

Cash Flow

During the period, the Group financed its operations and investments principally through reserves as well as bank and other borrowings. We have raised a new bank loan of HK\$31 million and made a net repayment (principal and interests) of other borrowings of HK\$3.5 million, and promissory notes of HK\$7.2 million.

Bank Balances and Cash

As at 30 June 2022, the Group had bank balances and cash of HK\$50.9 million as compared with HK\$39.3 million as at 31 December 2021, which were mainly denominated in Pound Sterling (as to 61%), Hong Kong dollars (as to 36%) and Renminbi (as to 3%).

Bank and Other Borrowings, Loan from a non-controlling member of a subsidiary, Corporate Bonds and Promissory Notes

As at 30 June 2022, the Group had bank and other borrowings, loan from a non-controlling member of a subsidiary, corporate bonds and promissory note totaling HK\$381.9 million (31 December 2021: HK\$388.2 million), of which HK\$39.0 million was repayable more than one year. The Group's debt to equity ratio for the six months ended 30 June 2022 increased to 103.7% from 78.4% for the year ended 31 December 2021 based on the total of current and non-current bank and other borrowings, loan from a non-controlling member of a subsidiary, corporate bonds and promissory note of HK\$381.9 million (31 December 2021: HK\$388.2 million) and total equity of HK\$368.4 million (31 December 2021: HK\$495.1 million).

The increase in debt to equity ratio was mainly due to decrease in total equity mainly caused by an unrealized fair value loss of investment of an associate of HK\$92.6 million measured at fair value through profit or loss during the period.

The bank borrowings represents a new bank loan repayable in instalments over a period of 3 years and with a repayment on demand clause and carry interest at variable market rates of Hong Kong Interbank Offered Rate plus 2% per annum. The bank borrowings balance as at 30 June 2022 are HK\$31 million (2021: nil).

The promissory note have maturity of 3 years and carry interest at 8% per annum. During the reporting period, the Group incurred interest expense of HK\$1.7 million and repaid principal and interest of HK\$7.2 million, the remaining promissory note balance as at 30 June 2022 is HK\$39.0 million.

The other borrowings and loan from a non-controlling member of a subsidiary have maturity at May 2023 and carry interest at 2.3% and 10% per annum respectively. During the reporting period, the Group incurred interest expense of HK\$3.7 million and HK\$0.5 million and repaid interest of HK\$3.5 million and nil, respectively. The remaining loan balance as at 30 June 2022 are HK\$303.0 million and HK\$8.7 million respectively.

Loan Receivables

Under the global outbreak of the COVID-19 pandemic, the Group has continued to adopt a prudent and cautious approach to balance the return and risk of the financing activities. As at 30 June 2022 and 31 December 2021, the Group did not have any outstanding secured loan lent to customers.

Foreign Exchange Exposure

The Group currently does not have a foreign currency hedging policy. The Group manages its foreign exchange exposure by monitoring the matching of the currency of its debt with (i) the collateral assets; and (ii) the debt servicing income derived from its business activities. During the period ended 30 June 2022, loan secured by property in Scotland was denominated in Pound Sterling and serviced by income from Scotland denominated in Pound Sterling.

Due to the weakness of the Pound Sterling over the period, a negative exchange difference arising on translation of foreign operations attributable to owners of the Company of approximately HK\$10 million was recorded during the period (2021: positive exchange difference of approximately HK\$1 million).

Pledge of Assets

As at 30 June 2022, certain of the Group's bank deposits and properties totaling HK\$531.0 million (31 December 2021: property totaling HK\$517.2 million) were pledged as security for relevant borrowings.

CAPITAL EXPENDITURES AND COMMITMENTS

As at 30 June 2022, the Group had total capital commitments of HK\$0.07 million (2021: nil), all are authorized and contracted for.

CONTINGENT LIABILITIES

As at 30 June 2022 and 31 December 2021, the Group had no significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events after the end of the six months ended 30 June 2022 (the "**Reporting Period**").

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associates or joint ventures undertaken by the Group.

On 26 November 2021, Racing Time Limited (the “**Purchaser**”), an indirect wholly-owned subsidiary of the Company and VMS Holdings Limited (the “**Vendor**”) entered into an agreement in relation to the acquisition of the entire issued share capital of VMS Auto Italia Fin Services Holdings Limited (the “**Target Company**”) (the “**Acquisition**”). The Acquisition constituted a very substantial acquisition and a reverse takeover for the Company under Chapter 14 of the Listing Rules. As at the date of this announcement, the completion of the Acquisition has yet to take place subject to the satisfaction or (as the case may be) waiver of a number of condition precedents. Upon completion of the Acquisition, the Company will hold the entire issued share capital of the Target Company through the Purchaser and the Target Company and its subsidiaries will become subsidiaries of the Company.

For details of the Acquisition, please refer to the announcement of the Company dated 26 November 2021.

HUMAN RESOURCES AND CHARITY

As at 30 June 2022, the Group employed a total of 7 employees in Hong Kong. The Group believes that employees are all pivotal to our development and representing the most valuable asset for supporting our sustainable business growth.

Due to continued spread of the COVID-19 pandemic during the year, we have highly maintained various pandemic control measures to ensure our employees can stay safe, such as regularly sanitizing touchpoints at offices and common areas, mandatory wearing masks and maintaining social distancing, and allowing work from homes and stagger lunch hours, etc..

As always, we provided not only 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 participation in charitable events such as donations.

BUSINESS REVIEW

Property Investment

The property investment business has formed part of the Group's reportable segments since 2014. The property investment division of the Group oversees and reviews its property portfolio from time to time to enhance returns and holds investment properties to earn rentals or for capital appreciation purposes. The Company funds the operations of the property investment division with its internal resources and banking facility. Our property investments consist principally of a portfolio of an office building in Scotland, an industrial building and a car park in Hong Kong.

For our investment properties in Hong Kong and Scotland, the Group continued to earn a rental income of HK\$1.1 million and HK\$13.5 million respectively (2021: HK\$1.0 million and HK\$7.1 million respectively) from leasing the investment properties. During the period, the Group recorded an unrealized gain on fair value change of investment properties of HK\$0.1 million and HK\$1.6 million respectively (2021: HK\$2.8 million and HK\$9.3 million respectively).

As at 30 June 2022, approximately 94% of the total net internal area of Capella is subject to various tenancy agreements at a total rental of approximately GBP2.9 million per annum with the expiry date in February 2030 at the latest and a weighted average unexpired lease term to expiry of 5.46 years.

Financial Investments and Services

As a result of the global outbreak of the COVID-19 pandemic, the Group has continued to adopt a prudent and cautious approach to balance the return and risk of the financing activities. As at 30 June 2022 and 31 December 2021, the Group did not have any outstanding secured loan lent to customer.

Life Sciences Investment

In April 2022, CBL's Shanghai R&D Centre made a breakthrough achievement, developing a cell line with super productivity (8-10 g/L), much higher than industry average of 3-5 g/L. This achievement will significantly boost CBL's capability in serving the early-stage drug development markets in China and beyond. The new third Good Manufacturing Practices facility (GMP-3 facility), expected to open in the second half of 2022, will enable CBL to serve early-stage drug development (Investigational New Drug projects) markets with cost-effective facility, synergizing with the Shanghai R&D Centre's technology breakthrough. The total number of clients served increased from 18 in second quarter of 2021 to 25 in second quarter of 2022, and more than 130 clients has engaged with CBL to enquire about CBL's comprehensive services.

For the six month ended 30 June 2022, CBL generated unaudited consolidated revenue of US\$21.4 million (2021: US\$6.7 million) and recorded unaudited consolidated operating losses of US\$2.5 million (2021: US\$4.7 million).

Based on the investment in CBL, the Group is actively searching for investment targets within the CDMO value chain, including cell line development and chemically defined culture media development.

OUTLOOK

Taking into consideration the economic uncertainties owing to the rise of interest rate and the COVID-19 pandemic, the macro environment looks set to remain challenging for the Group. The Group will keep monitoring the effect that could be caused by the COVID-19 on the business operations and financial position of the Group. The Group will continue to identify potential 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 2022 (2021: 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 2022.

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 had 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 Listing Rules on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the six months ended 30 June 2022, except Code Provision C.2.1 of the CG Code.

CG Code Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive 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. Mr CHONG Tin Lung Benny 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 Board believes that a balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high caliber individuals including four Executive Directors (including Mr CHONG Tin Lung Benny) and three Independent Non-executive Directors who offer advices and views from different perspectives. Moreover, the Audit Committee has been provided with sufficient resources to perform its duties, including obtaining outside legal or other independent professional advice when it considers necessary. 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 2022.

AUDIT COMMITTEE

The members of the Audit Committee comprise Mr. KONG Kai Chuen Frankie, Mr. LEE Ben Tiong Leong and Mr. TO Chun Wai, all of whom are INEDs. Mr. KONG Kai Chuen Frankie is the chairman of the Audit Committee.

The principal duties of the Audit Committee should be to make recommendations to the Board on the appointment, re-appointment and removal of the external auditors and their remuneration for audit and non-audit services; to review the effectiveness of the audit process in accordance with applicable standards; to review changes in accounting policies and practices; to review the fairness and reasonableness of any connected transaction; to review the cash flow position of the Group; and to review the dividend policy, 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 2022 have not been audited but have been reviewed by Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants, 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 2022.

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 2022 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, 26 August 2022

As at the date of this announcement, the Board comprises Mr. CHONG Tin Lung Benny (Executive Chairman and Chief Executive Officer), Mr. HUANG Zuie-Chin, Mr. NG Siu Wai and Mr. LIN Chun Ho Simon, all of whom are executive Directors; and Mr. KONG Kai Chuen Frankie, Mr. LEE Ben Tiong Leong and Mr. TO Chun Wai, all of whom are independent non-executive Directors.