大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

Annual Report 2007

Vitality and Professionalism

OUR CHINA MOMENTUM

Stock Code : 1828

ABOUT DCH

DCH Holdings is a business conglomerate with key interest in the consumer market and has gained strong foothold in Hong Kong and Macao over the past 58 years. It has proven itself as a trustworthy brand name in a diversified business portfolio with three core pillars. They are motor and motor-related business, food and consumer products, as well as, logistics business. Synergizing on one another's nature and strength, an integrated business platform with scale advantages is created and stable revenue has been brought to the Group throughout the past decades. Grasping the invaluable business opportunities in Mainland China, DCH Holdings has successfully expanded its operations to the country and will continue the vigorous development of its core businesses in the coming years to ensure remarkable contributions to the Group.

CONTENTS

Vitality and Professionalism

OUR CHINA MOMENTUM

BUSINESS HIGHLIGHTS

Successfully listed on the Main Board of Hong Kong Stock Exchange on 17 October 2007 (Stock Code: 1828)

Motor and Motor-related Business

- Unit sales in Mainland China increased 24%
- Established regional management model to further expand businesses in Mainland China
- Captured 28% market share in Hong Kong new vehicle market
- Captured over 50% market share of Hong Kong trucks and non-franchised buses market
- Captured over 84% market share in the environmental-friendly 7/8-seats passenger car (MPV) segment
- Appointed as the independent authorized sales consultant for Bugatti
- Provided transportation solutions for "Good Luck Beijing", an equestrian event held in Hong Kong in August 2007
- Introduced house brands of automobile parts including batteries, wiper blades and lubricants
- Acquired aircraft component repair certification (FAR145) for our joint ventures in Mainland China from the Federal Aviation Administration in the United States, extending the Group's leading edge in unit load devices maintenance business

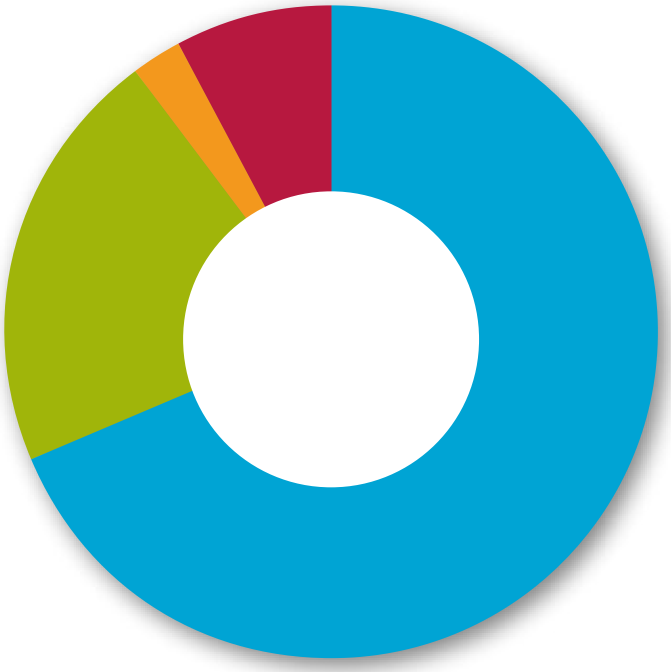
Food and Consumer Products

- Stepped up the development of catering segment for both food commodity and FMCG
- Acquired Shanghai Sunny Life Enterprise to strengthen product portfolio and presence in Mainland China
- Diversified retail operations by adding 5 DCH Food Mart Deluxe premium product outlets to DCH Food Mart chain; there were 55 food retail outlets in Hong Kong as at the end of 2007.
- Sports and health drinks enjoyed encouraging sales growth

Logistics Business

- Commenced full operation of the logistics hub in Xinhui, Guangdong in 2H2007
- Renovating the logistics centre in Yuen Long and scheduled for operation in 4Q2008

FINANCIAL HIGHLIGHTS



Major Business Segment Results

Motor and Motor-related Business	68.7%
Food and Consumer Products	21.2%
Logistics Business	2.4%
Others	7.7%

HK$ million	**2007**	2006
Profit Attributable to Shareholders	**515**	324
Major Business Segment Results		
Motor and Motor-related Business	**483**	298
Food and Consumer Products	**149**	101
Logistics Business	**17**	11
Others	**54**	81
Capital Employed	**6,229**	4,518
Shareholders' Funds	**4,282**	3,655
Net Debt	**294**	121
Cash & Available Committed Loan Facilities	**2,203**	842

HK cents	**2007**	2006
Earnings per Share	**31.07**	19.98
Dividends per Share		
Final (post IPO)*	**2.13**	N/A

*Note * The level of dividend was recommended with reference to the net profits of the Group, apportioned to the period from 17 October 2007 (the date when the Company became listed) to 31 December 2007*

CHAIRMAN'S LETTER TO SHAREHOLDERS

The successful listing of DCH Holdings in 2007 represented another significant chapter in the long, progressive history of the Group over the years. The immense joy associated with the listing is only tempered by our desire to always go one step further.

Indeed, steady advancement is the Group's hallmark and was duly realised from our efforts in 2007. The Group achieved total turnover of HK$16,050 million in 2007, representing an impressive year-on-year rise of 24.2%. Profit attributable to shareholders grew by 59.0% to HK$515 million. Basic earnings per share was 31.07 HK cents for the year. The Board of Directors proposed payment of a final dividend of 2.13 HK cents per share for the year ended 31 December 2007. The level of dividend was recommended with reference to the net profits of the Group apportioned to the period from 17 October 2007 (the date when the Company became listed) to 31 December 2007.

A year with notable achievements, our motor, food and consumer products, and logistics businesses all made strides forward over the last 12 months. Maximising on our first-mover status, we achieved a considerable 43% rise in turnover from our motor business in Mainland China, while we significantly increased our market share in the growing passenger car market in Hong Kong. Our food and consumer products business capitalised on strong demand for its food commodities and Fast Moving Consumer Goods ("FMCG"), enabling the segment's Mainland China operations to increase turnover by close to 25%. In Hong Kong, encouraging sales of frozen poultry and pork allowed us to realise modest growth, thus prevailing over challenges posed by a highly competitive market. Equally heartening, our logistics business increased turnover by 22% over 2006 as our distribution network continued to satisfy the needs of key customers in Mainland China, Hong Kong and Macao.

Vitality, Professionalism and Our China Momentum

While realising solid progress, we will now look at developing prudent strategies to build on our accomplishments. For our motor and motor related business in Mainland China and Hong Kong, we will place every effort to building up our product portfolio, expanding our dealer network, representing more top quality vehicle brands, as well as expanding the motor related business, such as motor leasing and parts trading. In Mainland China, we see the dealerships of various motor brands are undergoing a consolidation phase. We will take this opportunity and stride to acquire more 4S dealer outlets of leading brands to complement our existing portfolio, and expand our operational scale so as to widen our lead in the market and foster the Group to be one of the leading motor conglomerates in Mainland China.

In terms of the food and consumer products segment, we remain firmly committed to becoming a total food supply chain. To speed up our efforts, we will actively explore and engage in Merger and Acquisition ("M&A") opportunities in food manufacturing and processing, as well as distribution and retail business while seeking to broaden our portfolio of house brand products offered to Mainland Chinese consumers. Widening the distribution network, acquiring more agency products and expanding sales to the catering segment will also ensure that our FMCG business rapidly penetrates the Mainland China market. Across in Hong Kong, we will continue to diversify into the food processing business, strengthen sales in the catering segment while taking a close look at ways to bolster our range of FMCG, including health foods, wine and spirits, and other premium products. On the retail end, we will persist in efforts to enlarge our network of outlets, particularly towards a more upmarket clientele where higher sales-per-ticket is achieved.

As for our third business platform, the logistics operation will undergo a phase of vigorous expansion and development across Mainland China, Hong Kong and Macao, with the aim of becoming one of the leading logistics service providers in the Pearl River Delta region.

Caring Company

While dedicated to our businesses, we never forget our responsibility to the society. The Group has steadfastly supported and participated in various charitable work activities both in Hong Kong and Mainland China. The Group has been awarded the 'Caring Company' for six consecutive years since the Caring Company Scheme was conceived in Hong Kong. Embracing the 'People First' philosophy, we understand that our employees are at the core of the Group; we offer various staff programmes to address their needs both in career and personal developments as well as recreational activities.

This is the philosophy of the Group that we will follow through and will continue to care for the society and our staff.

Appreciation

DCH Holdings had a prosperous 2007, the results of all those involved with the Group. On behalf of the Board of Directors, I would like to take this opportunity to thank every member of our staff for contributing to this success. I wish to also express my appreciation to our customers and business partners for their continuing support. As always, we will remain committed to furthering the success of DCH Holdings while seeking to generate greater returns for our shareholders.

Hui Ying Bun *Chairman*
Hong Kong, 12 March 2008

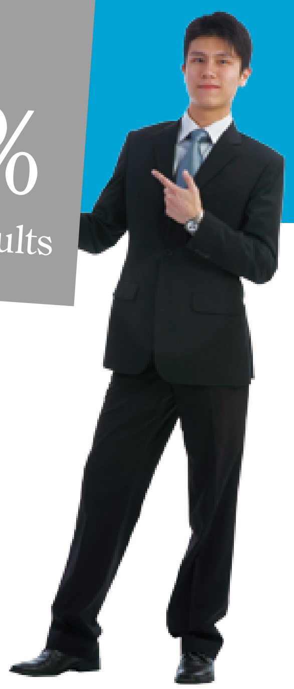

HK$16,050m
Total Turnover
HK$515m
Profit Attributable to Shareholders

Operating Results

The Group recorded encouraging growth from its business during the year under review, reporting total turnover of HK$16,050 million, a rise of 24.2% over the previous year (2006: HK$12,926 million). Profit attributable to shareholders grew by 59.0% to HK$515 million compared with HK$324 million in 2006. Excluding non-operating items, such as net valuation gains from investment properties, interest income from application monies from Hong Kong Public Offer and share option expenses, the Group's adjusted net profit from continuing operations for the year amounted to HK$435 million, representing a remarkable growth of 49.0% compared with last year's HK$292 million. Net profit margin improved from last year's 2.5% to 3.2%.

Basic earnings per share was 31.07 HK cents for the year. The Board of Directors proposed payment of a final dividend of 2.13 HK cents per share for the year ended 31 December 2007. The level of dividend was recommended with reference to the net profits of the Group apportioned to the period from 17 October 2007 (the date when the Company became listed) to 31 December 2007.

Motor and Motor-related Business



BUSINESS REVIEW

Motor and Motor-related Business

Operating Results

The motor and motor-related business had solid development in 2007, turnover achieved a year-on-year rise of 32.4% to HK$10,175 million for the year (2006: HK$7,684 million) and made up 63.4% of the Group's total turnover, the segment continued to be the largest revenue source for the Group (2006: 59.4%).

Motor and Motor-related Business

Motor business

Ongoing success in the motor business can be directly attributed to the pioneering spirit of the Group. The Group was among the very first automobile distributors to enter Mainland China back in 1979 and is the first Hong Kong automobile distribution company to obtain approval under CEPA to establish a wholly-foreign-owned company in the country. It has stayed at the forefront of the Mainland China motor market all these years and the business will continue to be a major growth driver for it in the future.

The Group, as a motor dealership conglomerate, currently is the official concessionaire for 17 vehicle brands and operating 30 4S outlets in 11 major cities. It distributes nationwide such prominent marques as Bentley and Isuzu, and is a regional distributor for Renault in Anhui, Jiangsu, Zhejiang and Shanghai.

The Group's Mainland China motor business had great success for the year, recording a significant 43.0% rise in turnover to HK$5,384 million. This is ample evidence of the Group's ability to penetrate the market and its astute approach in addressing local demand.

At the close of the 2007 financial year, the Group sold a total of over 21,000 vehicles in the Mainland China, representing a year-on-year rise of 24.0% (2006: over 17,000 vehicles). The increase was owed to the success of the Group in consolidating and improving the performance of the 4S outlets acquired in 2006, applying management expertise gained over the years in Hong Kong and Mainland China. While same-store growth was affected by the tapered average selling price per unit of vehicle during the review period – an industry trend – the Group was able to partially offset the negative effect by increasing the revenue from higher margin after-sale services, which contributed to an overall rise in same-store gross profit by 8.8%.

The success of the Group's motor business in Mainland China is directly related to its success in Hong Kong, where it has over 40 years of experience. As of 2007, it held distribution rights for 11 automobile brands, operating 17 showrooms and 12 service outlets in Hong Kong, and occupied 28.0% of the new vehicle market, rising from 27.0% in 2006. Business turnover from Hong Kong and Macao rose by 20.1% to HK$3,638 million (2006: HK$3,029 million). This notable rise can be credited to the Group's ability to accommodate a broad spectrum of customers. Strong sales from such diverse products as environmental-friendly private vehicles to premium Bentley saloons perfectly reflected this. The Group dominated in the 7/8-seater passenger car (MPV) segment by introducing environmental-friendly vehicles, Honda Stepwgn 2.0SR and the Nissan Serena to meet the rising demand. Thanks to the government's special tax incentive programme and the in-time introduction, the Group sold about 1,800 environmental-friendly MPVs in 2007 and occupied about 84.0% of this segment.

Satisfying the needs of a completely different client segment, the Group captured over 50.0% share of the trucks and non-franchised buses market in Hong Kong. However, in 2007, the Volkswagen Group reviewed its global distribution strategy; and, as a result, the Group's distribution rights for Volkswagen vehicles in Hong Kong and Macao will cease as of 27 August 2008. Despite that, the Group continued to explore new business opportunities, and was appointed the independent authorised sales consultant for Bugatti on 15 June 2007.

Motor and Motor-related Business

Motor-related business

Complementing the motor business in Mainland China, the Group introduced its house brand of automobile parts in 2007, products including batteries, wiper blades and lubricants, such essentials have subsequently been made available to Hong Kong consumers as well.

Turning to its leasing operations, through sponsoring "Good Luck Beijing", an equestrian event held in Hong Kong in August 2007, the Group highlighted its strength in the business field. The Group signed a HK$11 million contract to provide transportation solutions for the event. As the competition served as a warm-up to the Olympic event to be held in 2008 the Group's involvement garnered significant attention. Furthermore, the Group's vehicle and emission testing centres had stable growth and assumed a lead position in the market, hence presenting the Group with yet another promising opportunity.

Moving from automobile to airport-related services, the Group acquired aircraft component repair certification (FAR145) from the Federal Aviation Administration in the United States for its Shanghai joint venture with China Eastern Airline. That coupled with the FAR145 certificates obtained by our Beijing joint venture have given the Group a clear edge in unit load devices maintenance business, as it is currently the sole provider qualified to serve international airlines in Mainland China.

Our Success Story

Kunming's Operations

The Group's success in Kunming makes an important business model for its Mainland China expansion. Starting with just one car brand and one commercial vehicle brand back in 2005, the Group operated multi-brand dealerships comprising five prominent passenger car and two commercial vehicle marquees in 2007. More significantly, the Group captured 9% of the Yunnan passenger car market (excluding low-end and MPV segment) for the year. In making this leap forward, the Group established a regional management office, provided the necessary support including IT, CRM, finance, procurement and human resources as well as technical trainings. Moreover, by capitalising on its scale advantages as well as the strong fundamentals achieved over the years in Hong Kong, the Group has elevated the profitability of each dealership.

In 2007, the Group recorded turnover of HK$1,460 million (RMB 1,362 million) from Kunming's operations. Reinforced by successful merger and acquisition activities, the Group reported a substantial rise in unit car sales in Kunming, up from around 1,500 vehicles in 2005 to over 6,900 vehicles in 2007, representing a compound annual growth rate ("CAGR") of 114%. Performance of its after-sales services was also encouraging; number of vehicles enjoyed our after-sales services increased from over 13,000 in 2005 to over 81,000 for the year, representing a CAGR of 147%. Properties acquired by the Group have also appreciated over the past three years, lending support to the Group's prudent management and investment strategies.

The success of its Kunming operations demonstrates the Group's edge in running a multi-brand city dealership business model in different regions; the Group has been able to achieve maximum management efficiency, minimum operation costs and enhance profitability. The Group will continue to strengthen its presence in Mainland China by forging strategic partnerships and exploring merger and acquisition opportunities, exceeding the goal of securing on average of six additional city dealerships per year in the next three years. For 2008 alone, the Group targets to set up 10 to 12 new 4S shops.

Food and Consumer Products

BUSINESS REVIEW

Food and Consumer Products

Operating Results

Food and consumer products, the Group's second largest business segment, made up 35.1% of the Group's total turnover, achieving 11.5 % rise in total sales to HK$5,626 million (2006: HK$5,047 million). Turnover from the Mainland China market was HK$2,241 million compared to HK$1,796 million in 2006, a significant year-on-year jump of 24.8%. This substantial increase was attributed to encouraging sales growth in food commodities and FMCG.

Food and Consumer Products

For food commodities, palm oil sourced at competitive costs for sale to wholesalers and a surge in demand for frozen foods helped lift sales. To boost sales further, a production line for fractionated edible oil is expected to commence operation in the first quarter of 2008. As for FMCG, the Group's ability to stay abreast of consumer trends has been rewarded with increased sales. In 2007, the Group stepped up advertising and promotional activities for confectionary products and successfully raised brand awareness and in turn sales. Pocari sports drink also enjoyed increase in turnover, up by about two-thirds at the Group's effective brand-building efforts. Other than these outstanding performers, all key food commodity products and FMCG brands made progress as well. As part of the ongoing efforts by the Group to expand its product portfolio, popular brands, such as Sugus (gift pack), was added.

For the Hong Kong and Macao markets, the Group reported turnover of HK$2,685 million. This modest growth was realised by encouraging sales of food commodities like frozen poultry and pork in the highly competitive markets. The Group will continue to utilise its global sourcing network to add new products, mitigate price fluctuation, and to raise competitiveness and gross profit margins. Already, the Group introduced fresh eggs from Thailand and expanded its business in the catering segment by introducing sugar from Australia, and butter from the United States.

As for FMCG, the Group added Campbell soups to the catering segment portfolio as well as introduced the 'Alive' brand of yogurt to major supermarket chains. Fibe-Mini, a dietary fibre health drink, saw sales more than doubled in 2007. The Group made yet further inroads into the health food segment by launching a soybean-based snack called Soyjoy in the fourth quarter of 2007, targeting health conscious office workers. In addition, the Group signed a contract with a prominent Macao casino-conference-resort to supply Melitta coffee and coffee machines to the operator.

On the retail front, the Group diversified the operation by adding five DCH Food Mart Deluxe premium product outlets to its DCH Food Mart chain to cater to a more upscale clientele. At the end of 2007, the Group was operating a total of 55 food retail outlets (50 DCH Food Mart stores and 5 DCH Food Mart Deluxe outlets). As the Group expanded its network of DCH Food Mart in Hong Kong only in the second half of 2007, reasonable revenue contribution from it will be reflected in 2008.

Other than the food business, the consumer products segment also realised several notable achievements in 2007. The Shiseido brand launched new make-up and moisturising lines and gained greater consumer awareness and popularity. As well, a mid-range brand, Aqua Label, was introduced in health and beauty chain stores. Year 2007 also saw Shiseido's retail presence enhanced with stand-alone stores increasing from 11 to 17 in Hong Kong and Macao, and a close to 10.0% increase in retail points to more than 1,100 by the end of December 2007. Across the border, retail distribution of Shiseido products continued to expand in Guangdong province. With digital TV broadcasting started in Hong Kong in late December 2007, and the Beijing Olympic Games to take place in August 2008, the Group has implemented a series of sales and marketing programmes to stimulate interest in high-definition TV and TV tuner boxes.

Logistics Business

BUSINESS REVIEW

Logistics Business

Operating Results

The logistics business achieved turnover of HK$176 million in 2007, representing an increase of 22.2% over 2006 (2006: HK$144 million). Key customers of the Group in Mainland China, Hong Kong and Macao enjoyed the efficiency brought by the well-developed distribution network of the Group.

Mainland China has seen increasing outsourcing demand for logistics services with growing expectation among users for transportation, storage and value-added services to be handled under one roof. Meeting such expectations is the Group's logistics hub in Xinhui, Guangdong, which has become fully operational since the second half of 2007, catering to businesses in Mainland China and Macao. Warehousing (including import and export bonded warehousing), repackaging and importation facilities are in service and reporting rising utilisation rate.

In Hong Kong, the Group maintained particularly strong relations with key customers from different industries. With a view to better cater to clients' needs at all levels, the Group will seek to diversify the scope of its operation to include services like laboratory testing. To this end, the Group has begun renovating its logistics centre in Yuen Long, which is scheduled for operation in the fourth quarter of 2008. In Macao, the Group was able to expand its customer base, adding especially casinos, conference centres and resorts to its established hotel clientele. Such efforts have resulted in notable increase in sales volume and revenue of the logistics segment.

PROSPECT

Motor and Motor-related Business

Motor business

Mainland China had overtaken Germany and Japan to become the second largest motor vehicle market with sales volume projected to reach over 10 million units in 2008 according to "China Association of Automobile Manufacturers", the market is expected to continue the strong growth in the coming years. The Group will take the opportunities provided by the further consolidation of the market to grow the businesses and become one of the leading motor conglomerates in the Mainland China within a few years of time.

Drawing from its wealth of experience, the Group will seek to tackle the Mainland China market by growing organically and through M&A. By forging strategic partnerships and exploring M&A opportunities, the Group will be able to strengthen its presence in the country, exceeding the goal of securing on average six additional city dealerships per year in the next three years. For 2008 alone, the Group targets to set up 10 to 12 new 4S outlets.

Running a multi-brand city dealership business model in different regions, the Group has been able to achieve maximum management efficiency and minimum operation cost. This gives the Group a remarkable edge for running the Mainland China business in the mid- to long-term.

Although the Hong Kong market is considerably more mature than the Mainland China market, the Group is committed to sustaining growth in both markets. As the local vehicle market is projected to expand by 4.0 % in 2008, the Group is keen to be a leading player responsible for this expansion. Continuing to take a proactive role in the motor business, the Group will seek to acquire more distributorship so as to widen its lead in the market.

Motor-related business

The Group will continue to expand the environmental and engineering business and is in active discussions with franchised bus operators in Hong Kong for supplying exhaust emission reduction devices.

The Group will further develop motor related business that includes operation of independent service outlets, parts manufacturing and trading, motor leasing and used car sales. The Group will continue to develop house brands of vehicle parts introduced in 2007 for Mainland China and explore overseas markets for them.

Armed with the success in providing leasing services during the "Good Luck Beijing" equestrian event in Hong Kong in 2007, the Group has been in active negotiation regarding provision of transportation solutions to the 2008 Olympic Equestrian events to be held in Hong Kong. In Mainland China, the Group, in a joint venture with COSCO, has been appointed the official motor leasing service provider for the 2008 Beijing Olympics, which has reinforced its position in the market as the leading total transportation solutions provider for major events and will expand its network coverage to other major cities.

Food and Consumer Products

The Group is dedicated to establishing a food operation that is fully integrated, featuring up-stream manufacturing, mid-stream marketing and distribution, and down-stream retailing. Furthermore, this food supply chain will be supported by a cold chain, food safety inspection and logistics capabilities.

Having already built a solid foundation in terms of mid-stream distribution, the Group will seek to move up-stream by enhancing its food and processing capabilities with potential to evolve into independent profit centres as well as provide complementary and synergistic benefit to other internal business units.

Food commodities

The Group will be expanding its DCH house brand of frozen foods, with particular emphasis on frozen vegetables. In addition to augmenting this product line for the Mainland China market, the Group will focus on promoting value-added processed foods for local consumers to cater for their increasingly hectic lifestyles. In Hong Kong, the Group will also seek to develop more house brands while continuing to expand the food processing segment and strengthen sales to the catering segment.

Fast moving consumer goods

In relation to FMCG, the Group has reached a deal to acquire Shanghai Sunny Life Enterprise, a distributor based in Shanghai, which will champion building of the Group's private label business, strengthening its product portfolio and presence in Mainland China. In addition, the Group will look towards identifying other M&A opportunities that can enhance its distribution channels, boost its agency network and create synergies with existing operations. Yet a further means of bolstering the Group's FMCG business, efforts will be placed on exploring the catering segment. In Hong Kong, the Group will seek to acquire more agency products to strengthen its line of health foods and snack products and acquire more new brands to expand its wines and spirits business. Moreover, M&A opportunities that enhance its private label offerings will be explored.

To grow its down-stream retail operation in Hong Kong, the Group plans to increase the number of DCH Food Mart and DCH Food Mart Deluxe outlets.

In addition to building a fully integrated food supply chain business, efforts to strengthen the Group's presence in the consumer products sector will continue in earnest. Accordingly, the Group will introduce more new products from Shiseido, targeting the Guangdong, Hong Kong and Macao markets. As built-in appliances become a staple in new residential developments, the Group will seek to tap this business area also. Along with examining new business opportunities, the Group will continue to enhance its product lines, both electrical appliances and cosmetics, by launching new products.

Logistics Business

With the Mainland China economy expected to remain robust in 2008, demand for logistics services will continue to build. Riding on its logistics hub in Xinhui now in full operation, the Group will move towards providing procurement services that can better utilise its competitive edges. As the Xinhui logistics centre will be expanded with cold storage facilities expected to begin operation in the second half of 2008, the Group will not only be able to tap the potential-laden logistics market in the Pearl River Delta Region, but also the demand for product sourcing and integrated logistics services in Macao where casinos, hotels and gaming facilities are sprouting.

Introduction

The Group's 2007 Annual Report includes a letter from the Chairman to shareholders, the financial statements and other information required by accounting standards, legislation, and the Hong Kong Stock Exchange. This Financial Review is designed to assist the reader in understanding the statutory information by discussing the business segment results and the financial position of the Group as a whole.

Pages 74 to 154 of the Annual Report contain the consolidated income statement, consolidated and Company balance sheets, consolidated statement of changes in equity, consolidated cash flow statement and a summary of significant accounting policies and other explanatory notes.

On page 73 is the report of the Company's auditor – KPMG – of their independent audit of the Group's consolidated financial statements.

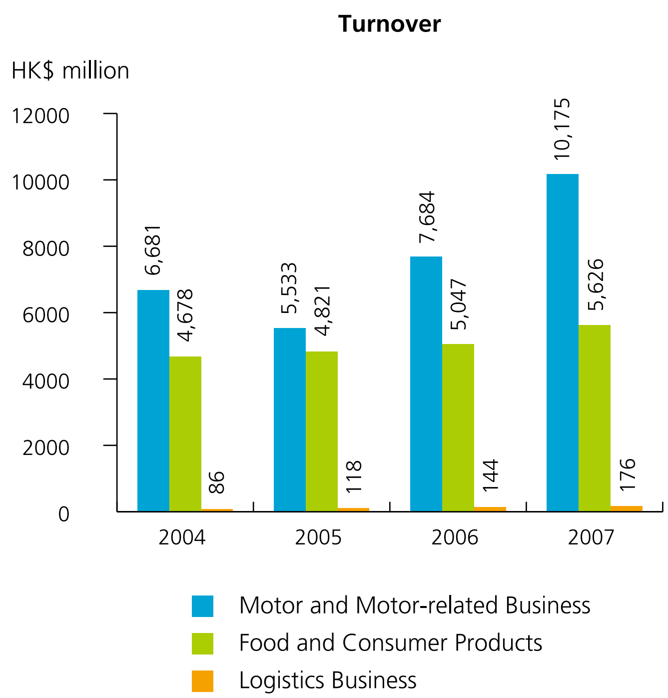
Basis of Accounting

The Group prepares its consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance.

Turnover

Turnover in 2007 increased substantially as compared to last year mainly attributable to the followings:

- Motor and motor-related business turnover increased by 32.4% mainly due to significant rise in turnover in Mainland China and capture of 28.0% market share in Hong Kong new vehicle market.
- Food and consumer products turnover increased by 11.5% mainly due to encouraging sales growth in food commodities and FMCG.
- Logistics business turnover increased by 22.2% mainly due to the Group's logistics hub in Xinhui, Guangdong in full operation since the second half of 2007.



Business Segment Results

The segment results by major business segments in 2007, compared with 2006, were:

HK$ million	**2007**	2006	Change
Motor and Motor-related Business	**483**	298	185
Food and Consumer Products	**149**	101	48
Logistics Business	**17**	11	6

Note: Business segment results represent profit before tax from each business operation without allocating finance costs and overhead, and exclude share of profits less losses of associates and jointly controlled entities as well as net valuation gains on investment properties.

Compared with business segment results for the year 2007 with last year:

- Motor and Motor-related Business:

  Turnover of motor and motor-related businesses increased from HK$7,684 million in 2006 to HK$10,175 million in 2007. Its segment results increased significantly by 62.1% due to significant 43.0% rise in turnover in Mainland China facilitated by established regional management model to further expand businesses and capture of 28.0% market share in Hong Kong new vehicle.

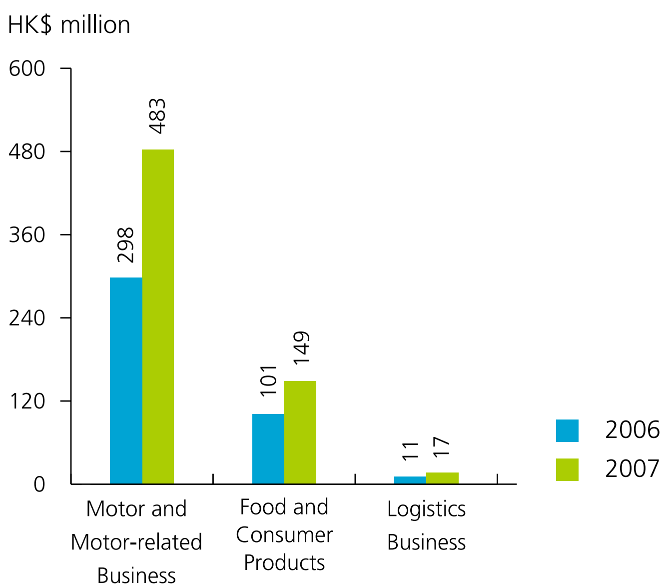
- Food and Consumer Products:

  Turnover of food and consumer products increased from HK$5,047 million in 2006 to HK$5,626 million in 2007. Its segment results increased significantly by 47.5% due to encouraging sales growth in food commodities and FMCG.

- Logistics Business:

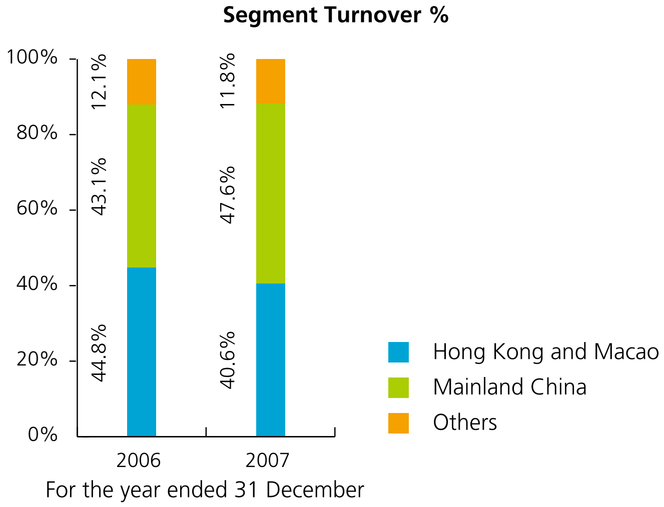
  Turnover of logistics business increased from HK$144 million in 2006 to HK$176 million in 2007. Its segment results increased significantly by 54.5% due to the Group's logistics hub in Xinhui, Guangdong in full operation since the second half of 2007.

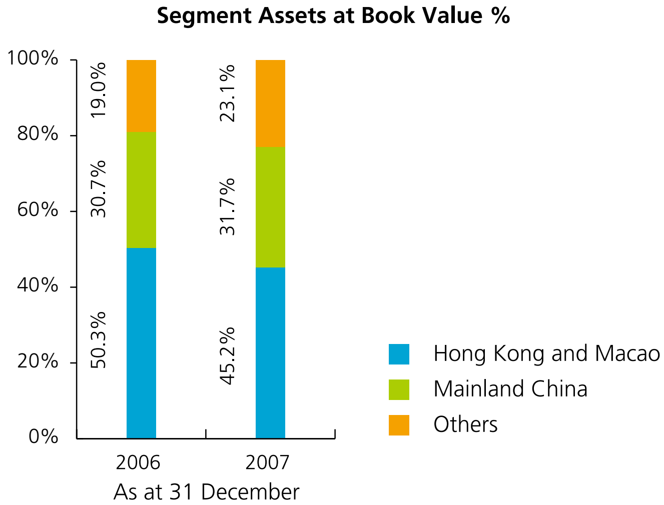
Business Segment Results



Geographical Segment

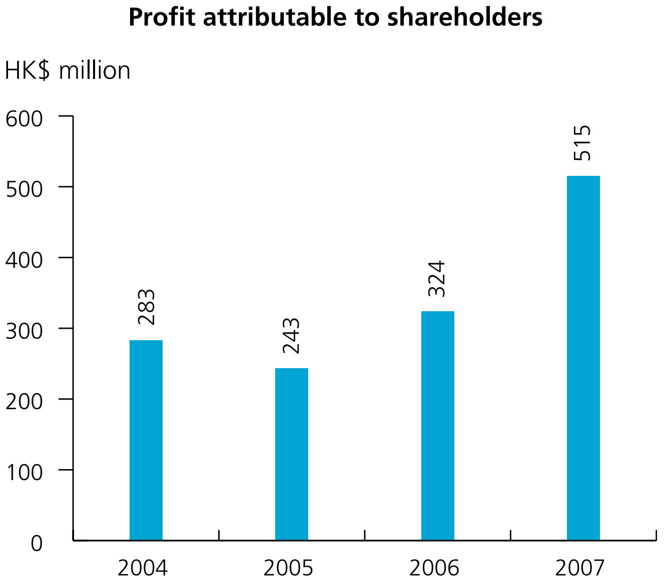
The division of business segment turnover and assets between Hong Kong and Macao, Mainland China and others is shown below. Business segment turnover is based on the geographical location of the customers. Segment assets are based on location of the assets.





Profit Attributable to Shareholders

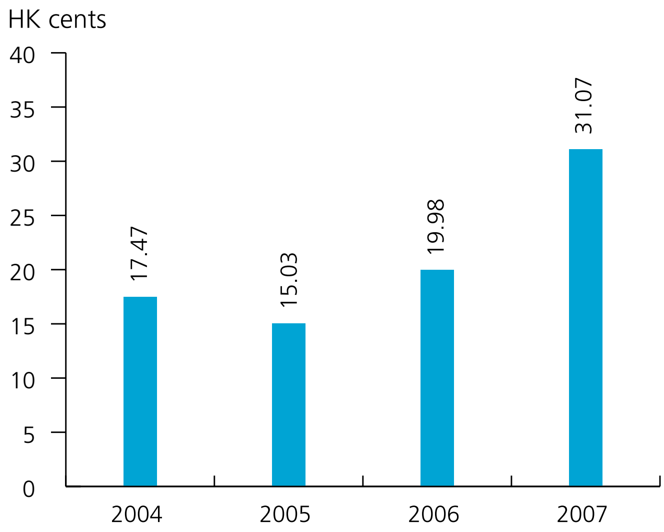
The net profit attributable to shareholders for the year ended 31 December 2007 was HK$515 million, an increase of 59.0% as compared with HK$324 million in 2006.



Earnings per Share

The calculation of earnings per share is based on the profit attributable to shareholders of the Company and the weighted average of 1,657,479,452 ordinary shares in issue during the year (for each of the years ended 31 December 2004, 2005 and 2006: 1,620,000,000 ordinary shares after adjusting for the capitalisation issue in 2007). Earnings per share was 31.07 HK cents for 2007, an increase of 55.5% as compared with 19.98 HK cents in 2006. The increase in earnings per share was mainly attributable to the increase in profit as the change in weighted average number of shares outstanding in 2007 and 2006 was insignificant.

Earnings per Share



Dividend per Share

An interim dividend of HK$0.56 per share was declared and paid for 2007. The Board of Directors proposed payment of a final dividend of 2.13 HK cents per share for the year ended 31 December 2007. The level of dividend was recommended with reference to the net profits of the Group apportioned to the period from 17 October 2007 (the date when the Company became listed) to 31 December 2007.

Finance Costs

The Group's interest expense increased from HK$43 million in 2006 to HK$61 million in 2007 mainly from having made new bank borrowings to finance business expansion in both Mainland China and Hong Kong.

Income Tax

Income tax increased from HK$93 million in 2006 to HK$165 million in 2007 mainly due to increase in profit from operations outside Hong Kong.

Shareholders' Funds per Share

The calculation of shareholders' funds per share is based on the total equity attributable to shareholders of the Company of HK$4,282 million and the total 1,800,000,000 shares issued at the end of the year. Shareholders' funds per share at 31 December 2007 was HK$2.38.

Capital Expenditure

In 2007, the Group's capital expenditure was HK$361 million and major usages were summarised as follows:

Motor and Motor-related Business:	For developing new city dealerships in Mainland China and the cost incurred in renewal of motor leasing fleet in Hong Kong
Food and Consumer Products:	Fixture and fittings
Logistics Business:	Added warehousing and transportation facilities in Mainland China, Hong Kong and Macao and a piece of land was purchased in Hong Kong
Others:	Fixture and fittings

HK$ million	**2007**	2006
Motor and Motor-related Business	**223**	330
Food and Consumer Products	**28**	14
Logistics Business	**101**	51
Others	**9**	36
Total	**361**	431

Use of Proceeds

The net proceeds of the Global Offering of the Group at 17 October 2007 amounted to approximately HK$1,003 million; as at the end of December 2007, HK$5 million of the total net proceeds were used by food and consumer products for business developments, and HK$73 million used by logistics business.

Treasury Policy and Risk Management

General policies

Cash management and financing activities of all operating entities in Hong Kong are centralized at head office level to facilitate control and efficient engagement.

Due to market limitations and regulatory constraints, operating entities outside Hong Kong are responsible for their own cash management and with head office performing the monitory role. Financing activities for operating entities outside Hong Kong are evaluated and approved by the head office through standard procedures before execution to ensure proper authorisation is obtained.

The head office also regularly monitors latest conditions and expected funding requirements of all operating entities and their compliance with lending covenants. The Group aims to maintain a high degree of control and best utilisation of financial resources.

Foreign currency exposure

For bank borrowings, functional currency of each operating entity is generally matched with its liabilities. Given this, management does not expect any significant foreign currency risk for the Group in association with borrowings.

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in currencies other than the functional currency of its operations. The foreign currency exposure is kept to an acceptable level by the Group by entering into foreign currency forward contracts and these contracts are usually matched with anticipated future cash flows in foreign currencies, primarily from purchases. As at 31 December 2007, the Group recognised foreign currency forward contracts of net fair value totalling HK$12 million.

Since new investments were made mainly in Hong Kong and Mainland China, they were subject to risk from fluctuation of foreign exchange rates of the Hong Kong Dollar, United States Dollar and Renminbi. Currently, Renminbi is not a free convertible currency and thus the Renminbi exchange swap market is not readily available or near efficient. In addition, 'Registered Capital', which usually accounts for no less than 25% of the total amount of investment for projects in Mainland China, is required to be paid in United States dollars.

Interest rate exposure

The Group's bank borrowings are mainly denominated in Hong Kong Dollar, Renminbi, Japanese Yen, Canadian Dollar and Singapore Dollar.

Hong Kong dollar bank borrowings are mainly for long-term as they are used for financing purpose and pay floating interest rate. Non-Hong Kong dollar bank borrowings are mainly for short-term as they are used as working capital and also pay floating interest rate. Interest rate risk arises primarily from long-term borrowings in Hong Kong.

As at 31 December 2007, the Group had not employed any interest rate derivative instruments.

Employment of derivative products

Derivative products are a permitted option for the Group in managing its exposures to fluctuation in interest rate and currency rate meaning for hedging purposes only. Speculative trading in derivatives is prohibited. Counterparties' credit risks are carefully reviewed and the Group only deals with financial institutions with investment grade credit rating.

Cash Flow

Summary of consolidated cash flow statement

HK$ million	**2007**	2006
Net cash generated from operating activities	**173**	380
Net cash generated from/(used in) investing activities	**132**	(100)
Net cash generated from/(used in) financing activities	**590**	(64)
Net increase in cash and cash equivalents	**895**	216

Net cash generated from operating activities

Cash inflow from operating activities was HK$173 million in 2007 as compared to HK$380 million in 2006. The decrease in net cash generated from operating activities in 2007 was mainly due to the fact that operating profit before changes in working capital of HK$726 million (2006: HK$492 million) was offset by increase in working capital of HK$452 million (2006: HK$32 million) as a result of business expansion: increase in inventories of HK$418 million and increase in trade and other receivables of HK$583 million, which were partially offset by increase in trade and other payables of HK$506 million.

Net cash generated from / (used in) investing activities

Net cash inflow from investing activities was HK$132 million in 2007 as compared to net cash outflow of HK$100 million in 2006. The increase in net cash generated from investing activities in 2007 was primarily due to repayment from a fellow subsidiary of HK$242 million (2006: advance of HK$4 million) and interest received of HK$53 million (2006: HK$14 million), which were offset by purchases of fixed assets and lease prepayments of HK$322 million (2006: HK$256 million).

Net cash generated from / (used in) financing activities

Net cash inflow from financing activities was HK$590 million in 2007 as compared to net cash outflow of HK$64 million in 2006. The increase in net cash from financing activities in 2007 was mainly due to net proceeds from bank loans of HK$1,028 million (2006: net repayment of HK$17 million) and net proceeds from public issue of HK$1,003 million, which were partially offset by a HK$900 million (2006: HK$139 million) interim dividends paid during the year.

Group Debt and Liquidity

The financial position of the Group as at 31 December 2007 against that as at 31 December 2006, is summarised as follows:

HK$ million	**2007**	2006
Total debt	**1,947**	863
Cash and bank deposits	**1,653**	742
Net debt	**294**	121

The original denomination of the Group's borrowings as well as cash and deposit balances by currencies as at 31 December 2007 is summarised as below:

HK$ million equivalent	HKD	RMB	JPY	CAD	SGD	Others	Total
Total debt	660	933	237	93	20	4	1,947
Cash and bank deposits	1,045	425	97	4	5	77	1,653
Net (cash) / debt	(385)	508	140	89	15	(73)	294

Leverage

The Group closely monitors its gearing ratio so as to achieve an optimum capital structure and reduce cost of capital. During 2007, the Group's strategy was to maintain a gearing ratio of below 40%, the same as in 2006.

The gearing ratio is defined as net debt divided by total capital. Net debt is calculated as total bank borrowings less cash and bank deposits. Total capital is calculated as shareholders' funds (i.e. total equity attributable to shareholders of the Company) plus net debt.

As at 31 December 2007, the Group's gearing ratio was 6.4% compared with 3.2% at the end of 2006.

HK$ million	**2007**	2006
Net debt	**294**	121
Shareholders' funds	**4,282**	3,655
Total capital	**4,576**	3,776
Gearing ratio	**6.4%**	3.2%

Total debt increased in 2007 mainly because of business expansion in Mainland China and financing activities in Hong Kong. As at 31 December 2007, outstanding debt maturity within one year amounted to HK$1,395 million or 72% of the total debt. On the other hand, the Group had cash and bank deposits of HK$1,653 million on that date. The effective interest rate of the Group's borrowings as at 31 December 2007 was 5.1% as compared to 4.8% as at 31 December 2006.

Maturity profile of outstanding debt

The Group manages its debt maturity profile actively based on its cash flow and refinancing ability during debt maturity.

	HK$ million	% of total
Maturity within 1 year	1,395	72
Maturity 1-2 years	277	14
Maturity 3-5 years	275	14
Total	1,947	100

Available sources of financing

In addition to cash and bank deposits balance of HK$1,653 million as at 31 December 2007, the Group had undrawn available loan facilities totalling HK$1,652 million, of which HK$550 million was in committed long term loans and HK$1,102 million of money market lines. It had available trade facilities amounting to HK$2,255 million. Borrowings by sources of financing as at 31 December 2007 is summarised as follows:

HK$ million	Total	Outstandings	Available
Committed Facilities:			
Term Loans and Revolving Loans	1,150	600	550
Uncommitted Facilities:			
Money Market Lines	2,114	1,012	1,102
Trade Facilities	3,680	1,425	2,255

Financing activities

The Company completed its Initial Public Offer on the Hong Kong Stock Exchange on 17 October 2007.

Pledged assets

As at 31 December 2007, subsidiaries' assets of HK$327 million (2006: HK$194 million) were pledged in relation to financing of discount bills in Japan and leasing of vehicles in Canada.

Capital commitments

The Group's capital commitments in respect of plant, property and equipment outstanding as at 31 December 2007 was HK$245 million, of which HK$13 million (2006: HK$12 million) has been contracted for and HK$232 million (2006: Nil) has been authorised but not contracted for.

Contingent liabilities

Save in respect of the guarantees granted in favour of the banks in respect of banking facilities granted to and utilised by an associated company, being HK$51 million (2006: HK$70 million) and HK$45 million (2006: HK$70 million) respectively, the Group had no other material contingent liabilities as at 31 December 2007.

Loan covenants

The funding needs from operating entities are usually short-term and they fluctuate due to working capital nature. Large portion of the Group's banking facilities are short-term and uncommitted to ensure flexibility for matching needs and standby purpose.

Refer to the committed banking facilities for long-term financing purpose, the followings are the major financial covenants:

Consolidated Net Worth	> or = HK$2,500 million
Consolidated Net Borrowings	< Consolidated Net Worth
Consolidated Current Assets	> Consolidated Current Liabilities

As at 31 December 2007, the Group had complied with all of its loan covenants.

Interest cover

EBITDA divided by interest expense for year ended 31 December 2007 was 15 compared to 14 in 2006, due to a 49% increase in EBITDA and a 42% increase in interest expenses.

FOUR YEAR SUMMARY

At year end (HK$ million)	**2007**	2006	2005	2004
Shareholders' funds	**4,282**	3,655	3,374	3,361
Debt				
Debt	**1,947**	863	783	516
Cash and bank deposits	**1,653**	742	531	588
Net debt / total capital	**6.4%**	3.2%	6.9%	-2.2%
Interest cover (times)	**15**	14	19	24
Total capital	**4,576**	3,776	3,626	3,289
Capital employed	**6,229**	4,518	4,157	3,877
Other property, plant and equipment	**810**	665	539	572
Investment properties	**786**	707	587	527
Lease prepayments	**160**	67	22	21
Interest in jointly controlled entities	**165**	160	108	137
Interest in associates	**138**	112	106	89
Other financial assets	**37**	156	82	73

For the year (HK$ million)	**2007**	2006	2005	2004
Profit attributable to shareholders	**515**	324	243	283
Earnings per Share (HK cents)	**31.07**	19.98	15.03	17.47
Net valuation gains on investment properties	**127**	112	77	57
EBITDA	**914**	614	495	499
Dividends per Share				
	HK cents	HKD	HKD	HKD
Interim	**55.56**	6.60	6.60	6.60
Final (Post IPO)	**2.13**	N/A	N/A	N/A

Note:

The results of the Group for the years ended 31 December 2004 and 2005 and the balance sheets of the Group as at 31 December 2004 and 2005 have been prepared using the merger accounting and are extracted from the Company's prospectus dated 4 October 2007.

HUMAN RESOURCES

As at the end of December 2007, the Group employed 8,141 employees (2006: 7,257) in its headquarters in Hong Kong, principal subsidiaries and joint venture companies. Employees working in the mainland China increased to 4,108 (2006: 3,553).

The recovery of economy in Hong Kong continued in 2007. It has led to optimism in the employment market and increased mobility.

Human resources management

DCH Holdings is an equal opportunity employer and adheres to non-discriminatory employment practices and procedures in recognizing and respecting individual's rights. The Group strives to administer a fair and consistent human resources management policy to the mutual benefit of the Group and its employees. It also upholds a high standard of business ethics and personal conduct of its employees. Every employee of the Group is required to strictly follow the Code of Conduct which covers the professional and technical standard of requirements in conducting business, and all heads of business units are charged with the responsibility of disseminating the Group's requirements to the people concerned. To ensure the proper enforcement of the Code of Conduct Policy, the Group requires all business units to report the compliance status of the Policy on a semi-annual basis.

Employee compensation

DCH Holdings aims to attract, retain and motivate employees who have the relevant skills, knowledge and competencies to develop, support and sustain the continued success of the Group. Employee's cash remuneration typically comprises a base salary and a variable compensation, mainly in the form of a performance-linked discretionary bonus which is based on the Group's results and the individual's performance. Senior management of the Group receives a substantially higher portion of their cash remuneration in performance bonus, reflecting their contribution to the business outcomes and financial performance. The Group's compensation strategy is to cultivate a pay-for-performance culture to incentivize and reward employee performance that will lead to a long-term enhancement of the overall caliber of the Group. The replacement of the Group's many forms of guaranteed and fixed bonuses with performance-based variable compensation has been implemented effectively by having the top-performers adequately rewarded and the under-performers properly addressed. On an annual basis, the Group reviews the cash compensation and benefit programs provided for its employees to ensure that the total compensation is internally equitable, externally competitive, as well as in support of the Group's business strategy. Towards this end, Group companies are largely in conformity with this policy.

Remuneration committee

The Remuneration Committee, established in September 2007, comprises three Independent Non-Executive Directors. The chairman of this committee is Mr. Adolf Hsu.

The principal role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind and the terms on which they participate in any share option or other plans considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

Retirement benefits

For the employees in Hong Kong, the Group participates in the CITIC Group Mandatory Provident Fund Scheme ("MPF Scheme") in accordance with the arrangements prescribed by the Mandatory Provident Fund Schemes Ordinance.

Employees and the Group contribute to the MPF Scheme at the following rates –

(i) for employees who joined the Group since May 2003, 5% of the employee's relevant monthly income (up to a maximum contribution of HK$1,000 by the Group) on a monthly basis to the fund respectively; and

(ii) for employees who joined the Group before May 2003, 5% or 10% of monthly basic salary, with no cap.

The latter group of employees was mostly former members of the CITIC Group Retirement Plan ("ORSO Plan"). This ORSO Plan has been replaced by the above MPF Scheme from August 2003. The ORSO Plan is now a closed fund and will be dissolved by 1 August 2008 when accured benefits of the remaining members have to be transferred to the MPF Scheme before then. All new contributions are made to the MPF Scheme.

Retirement benefit for employees in the mainland China and overseas is based primarily on local mandatory requirements.

Training & development

The Group is committed to enhancing the capability of its employees. This is achieved through organizing need-based in-house programs as well as sponsoring the participation in external programs. In-house training programs include orientation programs for new employees, providing them with an understanding of the Group's vision and values, code of conduct and compliance, terms and conditions of employment, performance management and benefits, customer service training programs for frontline employees to achieve service excellence and management training programs to enhance managerial effectiveness.

Employees are also sponsored to attend external programs to acquire requisite knowledge or skills related to their job. On a highly selective basis, the Group also sponsors employees to pursue studies leading to advance academic qualifications relating to their profession or business management.

With the growing cross-border business activities between Hong Kong and the Mainland China, the Group encourages and is actively promoting business integration, knowledge sharing and skills transfer between staff in the two territories.

Employee relations

The Group also strives to enrich employees' work and personal lives by regularly organizing various social, recreational and community work programs for them. The Employee Wellness Committee of the Group organizes various kinds of social and recreational activities regularly for enjoyment and relaxation of its employees and to promote team building and bonding among the employees through these activities. The Community Services Committee organizes social services for the employees to serve the community voluntarily.

IN THE COMMUNITY

Caring company

Embracing the "People First" philosophy, DCH Holdings has steadfastly supported and participated in activities that encourage social responsibility. In Hong Kong, the Group is one of the earliest supporters of the Caring Company scheme conceived by the Hong Kong Council of Social Services since the launch in 2002 and has been awarded the "Caring Company" for six consecutive years.

Charitable works

The Group has been supporting charitable works in Hong Kong, the mainland China and overseas through various channels. In 2007, the Group participated in many fund-raising activities, offering donations to charitable organizations such as the Community Chest of Hong Kong, Sowers Action, Hong Chi Association, as well as the Life Education Activities Programme. In some instances, business clients were invited to offer donations, the sums of which were matched by the Group thereby doubling contributions to the concerned organizations. Moreover, the Group has continued to support charitable efforts by ORBIS, YMCA and Oxfam, donating in kind, and providing social services via the Group's Staff Volunteer Team.

Community well-being

As a corporate citizen of a service-based economy such as Hong Kong, the Group is dedicated to fostering customer service excellence and helpings raise the competitiveness of individuals and industries. Accordingly, the Group is a founding member of the Hong Kong Association for Customer Service Excellence Ltd, which is a non-profit making organization promoting customer service excellence in Hong Kong via education, best practice sharing, award programmes and research. In addition to sponsorships, significant volunteer effort has been made towards realizing the said activities and cultivating a service culture in the Territory.

Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance and first class business practices. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices to ensure that they meet stakeholders' expectations, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

The Company has applied the principles of and complied with the applicable Code Provisions of the Code of Corporate Governance Practices ("the Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") since it was listed on the Stock Exchange on 17 October 2007 up to 31 December 2007.

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code since the Company's listing on 17 October 2007 up to 31 December 2007.

Board of Directors

The Board currently comprises eight executive and seven non-executive directors of whom three are independent as defined by the Stock Exchange (the biographies of the directors are set out on pages 45 to 47). Independent non-executive directors are one-fifth and the non-executive directors are nearly half of the Board.

Under the Company's Articles of Association, every director is subject to retirement by rotation at least once every three years. One-third of the directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's businesses is delegated to the executive director or officer in charge of each division. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, finances and shareholders including financial statements, dividend policy, significant changes in accounting policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

The Board will meet regularly to review the financial and operating performance of the Group and other business units, and approve future strategy. The Company had held one full Board meeting in the year 2007 since its listing. Individual attendance of each director at the Board meeting, the Audit Committee meeting and the Remuneration Committee meeting during 2007 is set out below:

	Attendance/Number of Meetings		
Director	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Director			
Mr Hui Ying Bun – Chairman	1/1		
Mr Chu Hon Fai – Deputy Chairman	1/1		
Mr Yip Moon Tong – Chief Executive Officer (appointed on 18 July 2007)	1/1		
Mr Mak Kwing Tim (appointed on 18 July 2007)	1/1		
Mr Lau Sei Keung (appointed on 18 July 2007)	1/1		
Mr Tsoi Tai Kwan, Arthur (appointed on 18 July 2007)	1/1		
Mr Glenn Robert Sturrock Smith (appointed on 18 July 2007)	1/1		
Mr Chan Kin Man, Andrew (appointed on 18 July 2007)	1/1		
Non-executive Director			
Mr Ho Hau Hay, Hamilton (designated on 18 July 2007)	1/1		
Mr Chau Chi Yin (appointed on 18 July 2007)	1/1		
Ms Chan Chui Sheung, Stella (appointed on 18 July 2007)	1/1		
Mr Kwok Man Leung (appointed on 18 July 2007)	1/1		
Independent Non-executive Director			
Mr Cheung Kin Piu, Valiant (appointed on 17 September 2007) (Chairman of the Audit Committee)	1/1	1/1	1/1
Mr Hsu Hsung, Adolf (appointed on 17 September 2007) (Chairman of the Remuneration Committee)	1/1	1/1	1/1
Professor Yeung Yue Man (appointed on 17 September 2007)	1/1	1/1	1/1

Non-competition Undertaking

CITIC Pacific Limited has executed a non-competition undertaking dated 28 September 2007 in favor of the Company to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific Limited and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific Limited will not engage and will procure its subsidiaries (excluding CITIC 1616 Holdings Limited, the Company and their respective subsidiaries) not to engage in business that may compete with the Group, and (ii) in the event that any opportunity is made available to CITIC Pacific Limited to invest in any independent third party's business engaging in activities carried out by the Group, CITIC Pacific Limited will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC Pacific Limited has reviewed the business of its group (excluding CITIC 1616 Holdings Limited, the Company and their respective subsidiaries) and advised that during 2007, their business did not compete with the Group and there was no opportunity made available to CITIC Pacific Limited to invest in any independent third party which was engaged in the same business as that of the Group. CITIC Pacific Limited had given a written confirmation to the Company that it has fully complied with the terms of the Non-competition Undertaking. The Independent Non-executive Directors of the Company have reviewed the confirmation and concluded that CITIC Pacific Limited has made the compliance.

Chairman and Chief Executive Officer

The Group has appointed a Chairman, Mr Hui Ying Bun and a Chief Executive Officer, Mr Yip Moon Tong. The roles of the Chairman and the Chief Executive Officer are segregated. The Chairman is responsible for overseeing the strategic and operational decisions of the business of the Group. The Chief Executive Officer is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which has been approved and adopted by the Board.

Non-executive Directors

There are currently seven non-executive directors of whom three are independent. Under Article 104(A) of the Company's Articles of Association, every director, including the non-executive director, shall be subject to retirement by rotation at least once every three years. This means that the specific term of appointment of a director cannot exceed three years.

Remuneration of Directors

The Remuneration Committee, established in September 2007, has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind and the terms on which they participate in any share option and other plans considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

During 2007 since the listing, the Remuneration Committee held one meeting to review the remuneration policies and approve the salary and bonus of the executive directors and senior management. Before the listing, the Remuneration Committee had also approved the granting of options under the Pre-IPO Option Scheme. No executive director has taken part in any discussion about his own remuneration. All Committee members are independent non-executive directors. Its members comprise:

Mr Hsu Hsung, Adolf – Chairman
Mr Cheung Kin Piu, Valiant
Professor Yeung Yue Man

The fee for each individual director sitting on the Board is HK$120,000 per annum. The additional fees for the directors serving in the Audit Committee and the Remuneration Committee are HK$80,000 per annum and HK$40,000 per annum respectively.

Details of the Company's remuneration policies are set out in the Human Resources section on pages 34 to 35. Directors' emoluments and retirement benefits are disclosed on page 108 and pages 125 to 129. Details of Pre-IPO Option Scheme and Post-IPO Option Scheme and the granting of options are disclosed on pages 65 to 67.

Nomination of Directors

Candidates to be nominated as directors are experienced and high calibre individuals. During 2007, the appointment of Mr Yip Moon Tong, Mr Mak Kwing Tim, Mr Lau Sei Keung, Mr Tsoi Tai Kwan, Arthur, Mr Glenn Robert Sturrock Smith, Mr Chan Kin Man, Andrew, Mr Chau Chi Yin, Mr Kwok Man Leung, Ms Chan Chui Sheung, Stella, Mr Cheung Kin Piu, Valiant, Mr Hsu Hsung, Adolf and Professor Yeung Yue Man as new directors was put to the full Board for approval. They will be subject to re-election by shareholders at the first annual general meeting after their appointment.

Auditor's Remuneration

The Company's external auditors are KPMG. During the year, the fees charged to the financial statements of the Company and its subsidiaries for KPMG's statutory audit amounted to approximately HK$9.6 million (2006: HK$6.2 million). In addition, approximately HK$0.2 million (2006: HK$0.2 million) was charged for other services. The non-statutory audit services mainly consist of interim reviews, tax services, special audits and financial due diligence, and retirement plans. The cost of recurring audit services of subsidiaries performed by other auditors amounted to approximately HK$1.0 million (2006: HK$0.7 million) and the cost of provision of other services was approximately HK$0.2 million (2006: HK$0.1 million).

Audit Committee

The Board established an Audit Committee in September 2007. The Audit Committee has clear terms of reference and is accountable to the Board. It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. All committee members are independent non-executive directors. Its members comprise:

Mr Cheung Kin Piu, Valiant – Chairman
Mr Hsu Hsung, Adolf
Professor Yeung Yue Man

The committee members possess diversified experience and the Chairman has appropriate professional qualifications and experience in accounting matters. The Audit Committee has scheduled to meet three times each year, together with senior management and auditors, both internal and external.

During 2007, one committee meeting was held. The Audit Committee discussed the nature and scope of the audit and reviewed the internal audit plan, findings and management's response. Since its listing on the Stock Exchange, the Company has been in full compliance with the requirements of Rule 3.21 of the Listing Rules up to 31 December 2007.

Internal Audit

Upon listing, the Group has continued to engage the group internal audit department of CITIC Pacific Limited ("IA"), the listed parent company of the Company, to perform internal audits for the Group. IA supports management by carrying out systematic independent reviews of all business units and subsidiaries in the Group on an ongoing basis. The frequency of review of individual business unit or subsidiary is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit plan annually. IA has unrestricted access to all parts of the business, and direct access to any level of management including the Chairman, or the Chairman of the Audit Committee, as it considers necessary. The audit result is discussed and agreed with the management of the Group subsequent to each review. A summary of major audit findings together with the actions to be taken by the Group's management for rectifying the control weaknesses is also submitted to the Audit Committee. The implementation of the remedial actions will then be followed up and the implementation progress will be reported to the Audit Committee three times a year.

Internal Controls

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness. The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material mis-statement or loss and management rather than elimination of risks associated with its business activities.

During the year, the Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal control system covering all material controls and risk management functions. The review is conducted annually in accordance with the requirement of the Code. The responsible management of the various business divisions and subsidiaries are required to assess the risks and the internal controls with reference to the five components of the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework. The result of the review has been summarised and reported to the Audit Committee.

In addition, IA conducts regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of IA on the effectiveness of the Group's internal control system and reports to the Board on such reviews.

To ensure the highest standard of integrity in our businesses, the Group adopted a Code of Conduct defining the ethical standards expected of all employees. The Audit Committee will receive a report on the operation, and the need for revision, of the Code of Conduct every year.

Communication with Shareholders

The Company's Annual General Meeting ("AGM") will be one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Company's performance. Separate resolutions were proposed for each substantially separate issue at the AGM.

The Company's Articles of Association contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll and the poll procedures will be included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be posted on the websites of the Stock Exchange and the Company.

Fair Disclosure

The Company uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. Information about the Company can be found in the Group's website including descriptions of each business and the Annual Report.

Investor Relations

DCH Holdings proactively promotes investor relations and communications by setting up regular meetings between management and institutional shareholders and analysts.

The Group recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In 2007, DCH's management met over 290 investors and investment analysts in our offices, as well as during roadshows in the Singapore, Tokyo, Milan, The Netherlands, New York, Boston, San Francisco and Hong Kong. In addition, questions received from the general public and individual shareholders were answered promptly. In all cases great care has been taken to ensure that no price sensitive information is disclosed.

The Board is committed to providing clear and full performance information to shareholders through the publication of interim and annual reports. In addition to dispatching circular, notices, and financial reports to shareholders, additional information is available to shareholders and investors on the website of the Company.

DCH Holdings values feedback from shareholders regarding its effort to promote transparency and foster investor relationships. Comments and suggestions are welcomed and can be addressed to the Investor Relations Manager by mail or by e-mail.

Financial Reporting

The Directors acknowledge their responsibility for preparing the Company's accounts which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants. The Directors endeavour to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. Hong Kong accounting standards have always broadly followed international accounting standards. The adoption of new or amended accounting standards that became effective during the year has not resulted in substantial changes to the Group's accounting policies and has no significant impact on the results reported for the year ended 31 December 2007.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on page 73.

DIRECTORS AND SENIOR MANAGERS

Executive Directors

Hui Ying Bun *Chairman*

Aged 61, a Director since January 2001. Mr Hui joined Dah Chong Hong, Limited ("Dah Chong Hong") in February 1966. Prior to his appointment as the Chairman of the Company in July 2007, he was the Group Chief Executive since January 2003. Mr Hui has more than 40 years experience with the Group in motor vehicle businesses and corporate management. In the late seventies, Mr Hui championed the development of the motor vehicle businesses in the PRC and laid the strong foundation for the later developments. In the late eighties, he further championed the development of the motor and trading businesses in Singapore. Furthermore, Mr Hui also led the structural rationalization of the Company to cope with the growth of the businesses.

Chu Hon Fai *Deputy Chairman*

Aged 62, a Director since January 2001. Mr Chu joined Dah Chong Hong in August 1964. Prior to his appointment as the Deputy Chairman of the Company in July 2007, he was the Chief Executive of Trading since January 2001. Mr Chu has over 40 years experience in the trading and logistics businesses. During his tenure, he has led the development of the food trading businesses in Hong Kong and the PRC and championed the growth of the logistics business in Hong Kong, the PRC and Macao.

Yip Moon Tong *Chief Executive Officer*

Aged 55, a Director since July 2007. He joined Dah Chong Hong in June 1992. Prior to joining Dah Chong Hong, he was serving in the Electrical and Mechanical Service Department of Hong Kong Government for 16 years. After leaving Hong Kong Government, Mr Yip joined Dah Chong Hong as the Operations and Technical Director. Prior to his appointment as the Chief Executive Officer in July 2007, he was the Managing Director for both Dah Chong Hong (Motor Service Centre) Limited and Honest Motors, Limited. Mr Yip has over 30 years experience, in both public and private sectors, in engineering and motor vehicle businesses.

Mak Kwing Tim

Aged 59, a Director since July 2007. Mr Mak is the Executive-in-charge of a number of dealerships and distributorships of renowned motor brands such as Acura, Audi, Bentley, Honda, MAN, UD Nissan Diesel and Volkswagen in Hong Kong. Mr Mak is also responsible for managing the distributorship of Bentley vehicles in the PRC. Mr Mak joined Dah Chong Hong in February 1967 and was appointed as a Director of Dah Chong Hong in July 1993. He has over 40 years experience in the motor vehicle businesses in Hong Kong.

Lau Sei Keung

Aged 55, a Director since July 2007. Mr Lau is the Executive-in-charge of a number of dealerships such as the Isuzu dealership for Hong Kong and the PRC, General Motors' products such as Saab and Opel and over 20 city dealerships in the PRC. He joined the Group in February 1973 and was appointed as a Director of Dah Chong Hong in January 2003. Mr Lau has over 30 years experience in the motor vehicle businesses of Hong Kong and the PRC.

Tsoi Tai Kwan, Arthur

Aged 59, a Director since July 2007. Mr Tsoi is the Executive-in-charge of the trading, import/export, wholesale and retail of frozen and non-frozen food products in the PRC, Hong Kong and Macao. He joined the Group in June 1976 and was appointed as a Director of Dah Chong Hong in January 2003. Mr Tsoi has over 30 years experience in food trading in Hong Kong.

Glenn Robert Sturrock Smith

Aged 55, a Director since July 2007. Mr Smith is the Chief Executive of Sims Trading Company Limited ("Sims Trading") looking after the marketing and distribution business for fast moving consumer goods in the PRC, Hong Kong and Macao. He joined CITIC Pacific Limited ("CITIC Pacific") in 2001 and was then transferred to the Group when Sims Trading became part of the Group in 2004. Prior to joining CITIC Pacific and the Group, he had over 20 years experience with the Dairy Farm Group, and has over 30 years experience in the marketing and distribution of fast moving consumer goods.

Chan Kin Man, Andrew

Aged 49, a Director since July 2007. Mr Chan is the Group Financial Controller of the Company. He joined the Group in March 2001. Mr Chan has over 25 years experience in the finance and accounting profession. Prior to joining Dah Chong Hong, he worked for professional accountancy firm, local conglomerates as well as multinational companies.

Non-executive Directors

Ho Hau Hay, Hamilton

Aged 57, a Director since October 1991. He was designated as a non-executive director in July 2007. Mr Ho is also an independent non-executive director of CITIC Pacific and New World Development Company Limited, a non-executive director of King Fook Holdings Limited, all being companies listed on the Stock Exchange. Mr Ho is experienced in acting as a non-executive director's role in listed conglomerates with diversified business. He is also an executive director of Honorway Investments Limited and Tak Hung (Holding) Company Limited.

Chau Chi Yin

Aged 52, a Director since July 2007. Mr Chau is an executive director of CITIC Pacific, a director of CITIC Hong Kong (Holdings) Limited ("CITIC HK"), Jiangyin Xingcheng Special Steel and Hong Kong Resort Company Limited. He joined CITIC Pacific in 1990 after experience in public accounting and in financial management with a major Hong Kong listed company. Mr Chau has over 25 years of experience in the accounting, auditing and financial management field.

Chan Chui Sheung, Stella

Aged 45, a Director since July 2007. She has been the company secretary of the Company since 1995 up to September 2007. Ms Chan is also the company secretary of CITIC Pacific. She has extensive experience in the company secretarial field and has served the Group for more than 12 years.

Kwok Man Leung

Aged 39, a Director since July 2007. He is a Chartered Financial Analyst. Mr Kwok is an executive director of CITIC Pacific. He is also a non-executive director of CITIC 1616 Holdings Limited, a director of Adaltis Inc. (a Canadian listed company), CITIC Guoan Co. Ltd. and New Hong Kong Tunnel Company Limited. He joined CITIC Pacific in 1993 after gaining experience in sales and business development with a major Hong Kong listed company.

Independent non-executive Directors

Cheung Kin Piu, Valiant

Aged 62, a Director since September 2007. Mr Cheung also serves as the chairman of the Audit Committee of the Company. Mr Cheung was a partner at KPMG until his retirement in 2001. Mr Cheung has extensive experience in assurance and corporate finance work. Mr Cheung is currently an independent non-executive director of Dream International Limited, Pacific Century Premium Developments Limited and Wing Shan International Limited, all being companies listed on the Stock Exchange. In addition, Mr Cheung is an independent non-executive director of The Bank of East Asia (China) Limited which is a wholly-owned PRC subsidiary of The Bank of East Asia, Limited.

Hsu Hsung, Adolf

Aged 69, a Director since September 2007. Mr Hsu spent some 40 years with the Hong Kong Government and retired in 1998 as Director of Regional Services, in the rank of an Administrative Officer, Staff Grade A. Mr Hsu joined New World First Bus Services Ltd as the managing director between 1 April 1998 and 31 January 2004. He was also the managing director of New World First Holdings Ltd, the holding company that wholly owns, inter alia, New World First Ferry Services Ltd, New World First Ferry (Macau) Services Ltd, and New World First Bus Service (China) Ltd. He was an executive director of Kwoon Chung Bus Holdings Ltd which is a publicly listed company and a non-executive director of New World Services Ltd. He is currently an independent non-executive director of Peking Apparel International Group Limited, a company listed on the Stock Exchange.

Yeung Yue Man

Aged 69, a Director since September 2007. Professor Yeung is Research Professor of the Hong Kong Institute of Asia-Pacific Studies, Director of the Shanghai-Hong Kong Development Institute at The Chinese University of Hong Kong. Professor Yeung has also made contributions to Hong Kong policy affairs by being a member of a large number of bodies, such as the Town Planning Board, Hong Kong Housing Authority, Consultative Committee in the New Airport and Related Projects, Barrister Disciplinary Tribunal Panel, Kowloon-Canton Railways. He served as Chairman of the Land and Building Advisory Committee and is presently Chairman of the Pan-Pearl River Delta Panel under the Central Policy Unit. He is also a member of the Commission on Strategic Development of Hong Kong Government.

Senior Managers

Kuk Tai Wai, David

Aged 56, is the Managing Director of DCH Logistics Company Limited and is primarily responsible for overall management and performance of the logistics business of the Group. He joined CITIC Pacific Group in March 2001. He was then transferred to the Group when Sims Trading became part of the Group in 2004. Mr Kuk has 28 years of experience in logistics operations.

Kwong Sum Mei, Esther

Aged 51, is the Director and General Manager of Shiseido Dah Chong Hong Cosmetics Limited and is primarily responsible for the overall management and performance of the cosmetics business of the Group. Ms Kwong joined Dah Chong Hong in April 1994. Ms Kwong has over 25 years of experience in business development and management.

Hui Kwong Lok

Aged 51, is the General Manager of Electrical Appliances Division of the Group and is primarily responsible for the overall management and performance of the electrical appliances business of the Group. He joined the Group in July 1978 and has 30 years of experience in trading, distribution and retail of electrical appliances operations.

Cheuk Chun Wai, Simon

Aged 51, is the President and Representative Director of DCH (Japan) Holding Co. Ltd. and is based in Tokyo, Japan. Mr Cheuk is primarily responsible for the overall management of DCH (Japan) Holding Co. Ltd. and the Group's operations in Japan. In 1987, he joined CITIC HK and then CITIC Pacific. He was transferred to the Group in 1992 when the Group was acquired by CITIC Pacific. Mr Cheuk has 26 years of experience in business development and management.

Wong Chit Chong

Aged 57, is the Director and General Manager of Triangle Auto Pte Ltd. in Singapore and is primarily responsible for overall management of Dah Chong Hong's operations in Singapore. He joined Triangle Auto Pte Ltd. in December 1987. Mr Wong has around 38 years of experience in the motor operations in Singapore.

Liang Chun Kit, Henry

Aged 52, is the Deputy President of Dah Chong Hong (Canada) Ltd. in Vancouver, Canada and is primarily responsible for overall management of Dah Chong Hong (Canada) Ltd. and the Group's operations in Canada. He joined Dah Chong Hong (Canada) Ltd. in May 1984. Mr Liang has about 20 years of experience in the motor operations in Canada.

Yan Mengying

Aged 59, is the Managing Director of Dah Chong Hong (China) Limited based in Shanghai, China and is primarily responsible for overall management of Dah Chong Hong (China) Limited and in support of the Group's operations in the PRC. She joined the CITIC Pacific Group in July 1997 and was then transferred to the Group in May 2000. Ms Yan has around 38 years of experience in planning and business management.

Ho Ming Kei, Wayne

Aged 47, is the General Manager, Corporate Planning and Management of the Company and is primarily responsible for performing business monitoring, planning and development in support of the Group's business performance and development initiatives. He joined the Company in October 1995. Mr Ho has over 18 years of experience in corporate and business development operations.

Wong Hoi Ming, Alan

Aged 54, is the General Manager, Group Human Resources and Administration of the Company and is primarily responsible for the overall management of the human resources functions of the Group. He joined the Company in June 2005. Mr Wong has over 30 years of experience in the human resources and administration operations.

Chau Wai Man

Aged 53, is the General Manager, Group Information Technology of the Company and is primarily responsible for administration and operation of the Group's information technology to provide the requisite information technology platform and programs in support of business needs. He joined the Company in January 2000. Mr Chau has over 27 years experience in IT management, IT consulting, system development and maintenance.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting to shareholders their report for the year ended 31 December 2007.

Principal Place of Business

Dah Chong Hong Holdings Limited ("the Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business in Hong Kong.

Principal Activities

The Company is a diversified business conglomerate in motor vehicle sales, motor vehicle related business and services, sales of food and consumer products, as well as logistics services, supported by integrated distribution platforms and a well-established base and network in the Mainland China, Hong Kong and Macao.

Subsidiary Companies

The names of the principal subsidiary companies, their principal places of operation, their countries of incorporation and particulars of their issued share capital are set out in note 43 to the financial statements.

Dividends

The Directors declared an interim dividend totaling HK$900,000,000 in respect of the year ended 31 December 2007 which were paid on 3 October 2007. The Directors recommended, subject to the approval of the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of 2.13 HK cents per share in respect of the year ended 31 December 2007 payable on 7 May 2008 to shareholders on the Register of Members at the close of business on 2 May 2008.

Financial Statements

The profit of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 74 to 154.

Transfer to Reserves

The amounts and particulars of transfer to and from reserves during the year are set out in note 32 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year amounted to HK$1.9 million.

Fixed Assets

Details of the movements of fixed assets during the year are set out in note 13 to the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's Total			
	Sales		**Purchases**	
	2007	2006	**2007**	2006
The largest customer	**3.5%**	2.0%		
Five largest customers in aggregate	**9.6%**	4.4%		
The largest supplier			**12.7%**	11.1%
Five largest suppliers in aggregate			**27.8%**	22.9%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Borrowings

Particulars of borrowings of the Company and the Group as at 31 December 2007 are set out in note 26 to the financial statements.

Directors

The directors who held office during the year and up to the date of this report were:

Mr Hui Ying Bun	
Mr Chu Hon Fai	
Mr Yip Moon Tong	(appointed on 18 July 2007)
Mr Mak Kwing Tim	(appointed on 18 July 2007)
Mr Lau Sei Keung	(appointed on 18 July 2007)
Mr Tsoi Tai Kwan, Arthur	(appointed on 18 July 2007)
Mr Glenn Robert Sturrock Smith	(appointed on 18 July 2007)
Mr Chan Kin Man, Andrew	(appointed on 18 July 2007)
Mr Ho Hau Hay, Hamilton	
Mr Chau Chi Yin	(appointed on 18 July 2007)
Mr Kwok Man Leung	(appointed on 18 July 2007)
Ms Chan Chui Sheung, Stella	(appointed on 18 July 2007)
Mr Cheung Kin Piu, Valiant	(appointed on 17 September 2007)
Mr Hsu Hsung, Adolf	(appointed on 17 September 2007)
Professor Yeung Yue Man	(appointed on 17 September 2007)
Mr Yung Chi Kin, Larry	(resigned on 18 July 2007)
Mr Fan Hung Ling, Henry	(resigned on 18 July 2007)
Mr Lee Chung Hing, Peter	(resigned on 19 July 2007)

Biographical details of the directors in office as at 31 December 2007 are set out on pages 45 to 47 of the Annual Report 2007 of the Company.

In accordance with Article 95 of the New Articles of Association of the Company, Messrs Yip Moon Tong, Mak Kwing Tim, Lau Sei Keung, Tsoi Tai Kwan, Arthur, Glenn Robert Sturrock Smith, Chan Kin Man, Andrew, Chau Chi Yin, Kwok Man Leung, Cheung Kin Piu, Valiant, Hsu Hsung, Adolf and Yeung Yue Man and Ms. Chan Chui Sheung, Stella will hold office only until the forthcoming Annual General Meeting and are then eligible for re-election. In addition, pursuant to Article 104(A) of the New Articles of Association of the Company, Mr Ho Hau Hay, Hamilton shall retire by rotation in the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to the independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and that the Company still considers such directors to be independent.

Contracts of Significance with Controlling Shareholder

The Company entered into an administrative services agreement with CITIC Pacific Limited on 28 September 2007, pursuant to which the Company shared certain administrative services, namely, company secretarial services, internal audit services and tax compliance services with CITIC Pacific Limited as commenced on 1 January 2007. The agreement shall continue thereafter in force from year to year but may be terminated if CITIC Pacific Limited shall hold less than 30% of the shares of the Company or by either party giving 6 months' prior notice in writing to the other party. The charges payable by the Company under the agreement will be determined based on cost of the services and the time spent by CITIC Pacific Limited as recorded monthly and calculated in proportion to their departmental monthly charges. Charges paid by the Company for year ended 31 December 2007 were approximately HK$6.8 million.

The Company also entered into a trademark licence agreement on 28 September 2007 with CITIC Pacific Limited, pursuant to which CITIC Pacific Limited agreed to license its trademark, on a non-exclusive basis, for use in connection with the trade, businesses and operations of the Group. The term of this agreement is from 28 September 2007 until the expiration of the current trademark registration on 26 July 2014. Either party may terminate the agreement before the term by giving six month's written advance notice. No consideration is payable by the Company to CITIC Pacific Limited for the use of the trademark.

CITIC Pacific Limited has executed a non-competition undertaking dated 28 September 2007 in favor of the Company to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific Limited and / or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific Limited will not engage and will procure its subsidiaries (excluding CITIC 1616 Holdings Limited, the Company and their respective subsidiaries) not to engage in business that may compete with the Group, and (ii) in the event that any opportunity is made available to CITIC Pacific Limited to invest in any independent third party's business engaging in activities carried out by the Group, CITIC Pacific Limited will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC Pacific Limited has executed an indemnity dated 28 September 2007 in favor of the Group under which CITIC Pacific Limited agreed to indemnify the Group in respect of various issues if such matters subsisted prior to the listing of the Company. Such issues include taxation claim, defects in titles of properties, leakage of assets resulting from the contractual arrangement with the registered owners of those PRC companies through which the Group conducts its operations in the industries that have foreign ownership restrictions, failure to the payment of social security and housing accumulations funds, failure to obtain business operating licence and permits.

The Company also entered into several tenancy agreements with CITIC Pacific Limited or its subsidiaries, details of which are set out under the heading of "Connected Transactions".

Saved as disclosed above, no contract of significance was entered into between the Company or any of its subsidiary companies on the one part and the Company's controlling shareholder or any of its subsidiary companies (excluding the Group) on the other part during the year.

Directors' Interests in Contracts of Significance

None of the directors of the Company has or at any time during the year had, an interest which is or was material, either directly or indirectly, in any contract with the Company or any of its subsidiary companies, which was significant in relation to the business of the Company, and which was subsisting at the end of the year or which had subsisted at any time during the year.

Connected Transactions

Connected transactions disclosed in accordance with the Listing Rules are as follows:

Non-exempt Continuing Connected Transactions

The Group has entered into the following continuing connected transactions, each of which constitutes a non-exempt continuing connected transaction which is subject to the reporting and announcement requirements only under Chapter 14A of the Listing Rules. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance of the announcement requirements.

1. Long-term airport ground support equipment maintenance services and vehicle repair services provided by Dah Chong Hong – Dragonair Airport GSE Service Limited to Hong Kong Airport Services Limited at the Hong Kong International Airport

Dah Chong Hong – Dragonair Airport GSE Service Limited ("DAS"), a joint venture company held as to 70% by the Group and 30% by Hong Kong Dragon Airlines Ltd. ("KA"), is one of the service providers in the field of airport ground support equipment ("GSE") management and aviation support for the Hong Kong International Airport. As KA is a substantial shareholder of two of the Company's subsidiaries, KA is a connected person of the Company.

From time to time, DAS has been providing GSE maintenance services to Hong Kong Airport Services Limited ("HAS"), a fellow subsidiary of KA and therefore a connected person of the Company.

By an agreement for GSE maintenance and repair entered into between HAS and DAS dated 17 July 1998, DAS, being one of the franchisees granted by the Hong Kong Airport Authority to provide GSE repair and maintenance services at the Hong Kong International Airport until 2013, agreed in its franchise period to provide the GSE repair and maintenance service to HAS' fleet of GSE in the airport in accordance with HAS' service standards. This forms the basis of an operational agreement between the two parties which is to be entered into annually after negotiation of the labour rate and the number of GSE in the HAS' fleet for a one-year term.

The amount of maintenance fees payable by HAS to DAS are fair and reasonable at market price in similar businesses and is expected to be subject to an annual cap of HK$21.3 million, HK$23.4 million and HK$25.8 million respectively for each of the three years ending 31 December 2009. The above annual caps, being the expected maximum annual transaction amount, have been determined on the basis of estimated volume of services required by HAS with reference to historical transaction value with DAS at market prices and the potential passenger and cargo volume growth of not more than 10% estimated by the Hong Kong Airport Authority.

An aggregate amount of HK$20.6 million was payable by HAS to DAS during the year.

2. Outsourcing of GSE services by DAS to DAS Aviation Support Limited

DAS Aviation Support Limited ("DSL"), a joint venture company held as to 70% by the Group and 30% by KA, is engaged in providing parts/equipments for the GSE management and aviation support services.

From time to time, DAS is expected to outsource part of its GSE services to DSL where DSL will provide the relevant parts required for the GSE concerned. DSL is an associate of KA and therefore a connected person of the Company.

On 28 September 2007, DSL entered into an outsourcing master agreement on GSE services with DAS, whereby DAS may from time to time outsource part of the GSE maintenance services and vehicle repair services to DSL. The term of the agreement is for three years commencing from 1 January 2007 and ending on 31 December 2009.

The amount of outsourcing fees payable by DAS to DSL are fair and reasonable at market price in similar businesses and is expected to be subject to an annual cap of HK$29.8 million, HK$31.6 million and HK$33.6 million respectively for the three years ending 31 December 2009. The above annual caps, being the expected maximum annual transaction amount, have been determined on the basis of estimated volume of services required by DAS with reference to historical transaction value with DSL at market price and the potential passenger and cargo volume growth of not more than 10% estimated by the Hong Kong Airport Authority.

An aggregate amount of HK$21.3 million was payable by DAS to DSL during the year.

3. Long-term maintenance services on unit load device by DAS Nordisk Limited to Cathay Pacific Limited

DAS Nordisk Limited ("DAS Nordisk"), a subsidiary in which the Company holds 49% attributable interest, provides rental, repair and assembly services for aircraft unit load devices, repair services for meal carts and cargo loading systems.

Pursuant to a contract for unit load device ("ULD") maintenance and repair entered into between DAS Nordisk and Cathay Pacific Limited ("CX") dated 1 July 2005 (with a term expiring on 30 June 2008), DAS Nordisk agreed to carry out maintenance and repair services on CX's ULD equipment. CX is the holding company of KA and therefore a connected person of the Company.

As a term of the contracts, different types of maintenance services are chargeable at a different rate. The amount of maintenance fees payable by CX to DAS Nordisk are fair and reasonable at market price and in any event is expected to be subject to an annual cap of HK$21.5 million and HK$24.7 million respectively for the two years ending 31 December 2008. The above annual caps, being the expected maximum annual transaction amount, have been determined on the basis of estimated volume of services rendered by DAS Nordisk with reference to historical transaction value with CX at market price and the potential cargo growth of not more than 10% estimated by the Hong Kong Airport Authority.

An aggregate amount of HK$21.3 million was payable by CX to DAS Nordisk during the year.

4. Outsourcing of ULD maintenance services by DAS Nordisk to DAS

On 28 September 2007, DAS Nordisk entered into an outsourcing master agreement with DAS, whereby DAS Nordisk may from time to time outsource part of its maintenance services on ULD to DAS. The term of the outsourcing master agreement is for three years commencing from 1 January 2007 and ending on 31 December 2009.

DAS is a subsidiary in which the Company has 70% attributable interest. DAS is an associate of KA and therefore a connected person of the Company.

The amount of outsourcing fees payable by DAS Nordisk to DAS are fair and reasonable at market price in similar businesses and is expected to be subject to an annual cap of HK$23.1 million, HK$25.4 million and HK$27.9 million respectively for the three years ending 31 December 2009. The above annual caps, being the expected maximum annual transaction amount, have been determined on the basis of estimated volume of services required by DAS Nordisk with reference to historical transaction value with DAS at market price and the potential cargo growth of not more than 10% estimated by the Hong Kong Airport Authority.

An aggregate amount of HK$20.6 million was payable by DAS Nordisk to DAS during the year.

5. Purchases of ULD spare parts from Nordisk Asia Pacific Ltd. by DAS Nordisk

On 24 September 2007, Nordisk Asia Pacific Ltd. entered into a sale and purchase master agreement with DAS Nordisk, whereby DAS Nordisk may, from time to time purchase ULD spare parts from Nordisk Asia Pacific Ltd. As the ULD is manufactured by the Nordisk group, the purchases of the ULD spare parts could only be made from the manufacturer, i.e. the Nordisk group. The term of the sale and purchase agreement is for three years commencing from 1 January 2007 and ending on 31 December 2009.

DAS Nordisk is a joint venture company held as to 70% by DSL and 30% by Nordisk Asia Pacific Pte Ltd ("NAP"). Nordisk Asia Pacific Ltd. is a fellow subsidiary of NAP (which is the substantial shareholder of DAS Nordisk) and therefore a connected person of the Company.

The amount payable by DAS Nordisk to Nordisk Asia Pacific Ltd. (including the amount paid to its holding company Nordisk Aviation Products a.s. in the first 9 months of 2007) are fair and reasonable at market price in similar businesses and is expected to be subject to an annual cap of HK$6.0 million, HK$6.3 million and HK$6.5 million respectively for the three years ending 31 December 2009. The annual caps have been determined with reference to the market price in similar businesses.

An aggregate total amount of HK$5.8 million was payable by DAS Nordisk to Nordisk Asia Pacific Ltd. and Nordisk Aviation Products a.s. during the year.

6. Leasing of premises for operations of the Group

The Group has entered into the following tenancy agreements ("Tenancy Agreements") with the respective landlords (all being wholly-owned subsidiaries of CITIC Pacific Limited) for leasing the premises necessary for the operations of its business in Hong Kong and the PRC.

Agreement Date	Landlord	Location	Monthly Rentals	Term
13 August 2007	Neostar Investment Limited	5/F, 7/F–12/F, 15/F and 16/F, Broadway Centre, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	HK$674,820.00	1 January 2006 to 31 December 2008 with an option to renew for a further term of 3 years*
13 August 2007	Glenridge Company Limited	Block C of Yee Lim Industrial Centre, Nos. 2–6 Kwai Hei Street, and Nos. 2–28 Kwai Lok Street, Kwai Chung, New Territories, Hong Kong	HK$864,526.50	1 January 2006 to 31 December 2008 with an option to renew for a further term of 3 years*
13 August 2007	Hamborex Company Limited	Factory Unit A (also known as Factory Unit 1), G/F (including loading and unloading platform) and Car Parking Space No. 112 on G/F of Tsuen Wan Industrial Centre, 220-248 Texaco Road, Tsuen Wan, New Territories, Hong Kong	HK$203,968.00	1 January 2006 to 31 December 2008 with an option to renew for a further term of 3 years
13 August 2007	Tendo Limited (Note 1)	G/F, Portion of 1/F, Unit 1A on 1/F, 2/F, 3/F, 6/F, 7/F and 8/F of No. 111 Lee Nam Road, Ap Lei Chau, Hong Kong	HK$861,572.10	1 January 2006 to 31 December 2008 with an option to renew for a further term of 3 years*
13 August 2007	Tendo Limited	Unit 1B on 1/F of No. 111 Lee Nam Road, Ap Lei Chau, Hong Kong	HK$22,061.85	1 April 2006 to 31 December 2008 with an option to renew for a further term of 3 years*
31 December 2007	Tendo Limited	Unit J, 14th Floor, 111 Lee Nam Road, Ap Lei Chau, Hong Kong	HK$31,310.00	1 December 2007 to 30 November 2008
13 August 2007	Borgia Limited	DCH Building, No. 20 Kai Cheung Road, Kowloon, Hong Kong	HK$4,902,959.50	1 January 2006 to 31 December 2008 with an option to renew for a further term of 3 years*
13 August 2007	上海中信泰富廣場有限公司 (Shanghai CITIC Square Co., Ltd.)	Unit 801–12, 8th Floor, CITIC Square, 1168 Nanjing West Road, Shanghai, PRC	US$35,898.12	1 July 2006 to 30 June 2009 with an option to renew for a further term of 3 years

* For these properties, the landlord has the right to terminate with 6 – 12 months' advance notice for redevelopment purpose.

Note: (1) 6/F and 7/F of No. 111 Lee Nam Road, Ap Lei Chau, Hong Kong were surrendered pursuant to a surrender agreement dated 30 November 2007. The monthly rental amount was revised from HK$861,572.10 to HK$634,324.50 after the surrender.

In addition, the following property was subject to an oral tenancy ("the Oral Tenancy") between Cranejoy Limited (a wholly-owned subsidiary of CITIC Pacific Limited) and the Group:

Landlord	Location	Current monthly rental payable to the landlord
Cranejoy Limited	Yuen Long Town Lot No. 508 New Territories, Hong Kong	HK$312,973.20

There was a land exchange between the landlord and the Hong Kong Government in respect of the above property. Under the Special Conditions to the Conditions of Exchange (New Grant Number 20394) dated 22 June 2007, the landlord had acknowledged the existence of the Oral Tenancy in respect of the old lot number and it was specifically stated therein that no written tenancy agreement in respect of the new lot number could be entered into by the landlord. By surrender agreement dated 31 August 2007 entered into between the landlord and Dah Chong Hong, Limited, Dah Chong Hong, Limited had surrendered the Oral Tenancy before 29 February 2008. The Company had relocated its existing business operation to new premises, also located in Yuen Long, at a comparable monthly rental.

According to the Tenancy Agreements and the Oral Tenancy, the aggregate rentals to be paid by the Group for each of the two years ending 31 December 2008 are expected not to exceed HK$98.0 million. Such rental charge is in line with the market rent.

The aggregate rentals paid by the Group under the Tenancy Agreements and the Oral Agreement was approximately HK$97.5 million during the year.

Review of Non-exempt Continuing Connected Transactions

Pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive directors of the Company have reviewed the above continuing connected transactions ("the Transactions") and are of the opinion that the Transactions have been entered into: -

(a) in the usual and ordinary course of business of the Group;

(b) on normal commercial terms; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also confirmed that the continuing connected transactions as set out in items 1 to 6 above:

(a) have received the approval of the Board of Directors of the Company;

(b) for the transactions set out in items 1, 3 and 4, the prices charged were in accordance with the pricing policies set out in the relevant agreements and supplementary price list governing such transactions; while for the transactions set out in item 2, the prices charged were consistent with the prices charged for comparable transactions identified by management;

(c) there were written agreements in place governing each of the transactions except for the lease with Cranejoy Limited and the transactions have been entered into in accordance with the relevant written agreements;

(d) for the lease with Cranejoy Limited subject to an oral agreement and a surrender agreement dated 31 August 2007, the rental charged for this transaction was in agreement with that set out in the said surrender agreement which indicated a monthly rental of HK$312,973.20; and

(e) have not exceeded the caps disclosed in the prospectus of the Company dated 4 October 2007 ("the Prospectus").

Contractual Arrangements

The Group has been conducting its PRC operations in the industries that have foreign ownership restrictions through various companies incorporated in the PRC ("the OPCOs") which are owned by PRC nationals or PRC companies ("the Registered Owners") for the benefits of the Group by virtue of a series of contractual arrangements ("the Contractual Arrangements"). The Contractual Arrangements were designed specifically to confer upon the Group the following rights and benefits:

(i) the right to enjoy all the economic benefits of the OPCOs, to exercise management control over the operations of the OPCOs, and to prevent leakages of assets and values to shareholders of the OPCOs; and

(ii) the right to acquire, if and when permitted by PRC law, the equity interests in the OPCOs at nil consideration or at a nominal value.

The written documentation for the Contractual Arrangements were formally signed by the relevant member of the Group and the relevant Registered Owners in July 2007 to ratify the arrangements as implemented and exercised by the parties since the establishment or acquisition of the OPCOs. Apart from being shareholders of the OPCOs, some of the Registered Owners also act as directors or legal representatives of the OPCOs or are directors of other subsidiaries of the Company, and therefore such Contractual Arrangements would technically constitute connected transactions of the Company and, unless an exemption is available under the Listing Rules, must comply with the applicable announcement, reporting and independent shareholders approval requirements of Chapter 14A of the Listing Rules.

Details of the Contractual Arrangements in place as at the date of the Company's listing and up to 31 December 2007 are set out below:

Name of OPCOs	Name of Registered Owner(s)/ Owner(s) and shareholding	Name of Holding Subsidiary	Date of establishment of OPCOs	Registered capital/ Total investment	Amount of loan advanced under the Contractual Arrangements Agreement(s)	Group's attributable interests	Subsidiary/ Associate/ Jointly controlled entity
					(RMB million)		
1. 江門大昌貿易行有限公司 Dah Chong Hong (Jiangmen) Limited	區兆昌 (Ou Zhaochang) (90%)	Dah Chong Hong (China) Limited	20 May 2003	RMB5 million/ N/A	4.5	100%	Subsidiary
	嚴夢英 (Yan Mengying) (10%)				0.5		
2. 江門昌運油品有限公司 Chang Yun Oil Products Co. Ltd.	區兆昌 (Ou Zhaochang) (50%)	Dah Chong Hong (China) Limited	20 May 2003	RMB10.1 million/ N/A	5.05	50%	Jointly controlled entity
3. 上海大昌行經貿有限公司 Shanghai Dah Chong Hong Trading Ltd.	上海大昌行食品工業有限公司 Shanghai DCH Food Industries Ltd. (88%)	Dah Chong Hong (China) Limited	14 Apr 1998	RMB12.5 million/ N/A	–	100%	Subsidiary
	王靜芬 (Wang Jingfen) (8%)				1		
	嚴夢英 (Yan Mengying) (4%)				0.5		
4. 上海大昌行儲運有限公司 (Shanghai Dah Chong Hong Storage and Transportation Limited)	上海大昌行經貿有限公司 Shanghai Dah Chong Hong Trading Ltd. (80%)	Dah Chong Hong (China) Limited	27 May 2005	RMB0.5 million/ N/A	–	100%	Subsidiary
	楊福祥 (Yang Fuxiang) (20%)				0.1		
5. 上海大昌行國際貿易有限公司 Dah Chong Hong International Shanghai Ltd.	上海大昌行經貿有限公司 Shanghai Dah Chong Hong Trading Ltd. (80%)	Dah Chong Hong (China) Limited	27 May 2005	RMB5 million/ N/A	–	100%	Subsidiary
	楊福祥 (Yang Fuxiang) (20%)				1		
6. 上海上昌工貿有限公司 (Shanghai Shangchang Industry and Trading Limited)	王靜芬 (Wang Jingfen) (60%)	Dah Chong Hong (China) Limited	26 Dec 2000	RMB5.88 million/ N/A	3.528	100%	Subsidiary
	許學華 (Xu Xuehua) (40%)				2.352		
7. 上海宏圖電器有限公司 (Shanghai Vision Electrical Appliances Co., Ltd.)	上海大昌行經貿有限公司 Shanghai Dah Chong Hong Trading Ltd. (80%)	Dah Chong Hong (China) Limited	14 Dec 2000	RMB1 million/ N/A	–	100%	Subsidiary
	嚴夢英 (Yan Mengying) (20%)				0.2		

Name of OPCOs	Name of Registered Owner(s)/ Owner(s) and shareholding	Name of Holding Subsidiary	Date of establishment of OPCOs	Registered capital/ Total investment	Amount of loan advanced under the Contractual Arrangements Agreement(s)	Group's attributable interests	Subsidiary/ Associate/ Jointly controlled entity
					(RMB million)		
8. 廣東慎昌貿易有限公司 Guang Dong Sims Trading Co., Ltd.	江門慎昌貿易有限公司 Sims Trading (Jiangmen) Company Limited (75.25%) 嚴夢英 (Yan Mengying) (24.75%)	Sims (China) Limited	4 Apr 1999	RMB4 million/ N/A	– 0.99	100%	Subsidiary
9. 江門慎昌貿易有限公司 Sims Trading (Jiangmen) Company Limited	區兆昌 (Ou Zhaochang) (90%) 張江長 (Zhang Jiangchang) (10%)	Sims (China) Limited	20 May 2003	RMB10 million/ N/A	9 1	100%	Subsidiary
10. 上海眾泰汽車銷售有限公司 (Shanghai Zhongtai Motor Sales Limited)	王靜芬 (Wang Jingfen) (45.83%) 程濟美 (Cheng Jimei) (32.5%) 仲玉林 (Zhong Yulin) (16.67%) 宋志良 (Song Zhiliang) (5%)	Triangle Motors (China) Limited	14 Jul 1998	RMB12 million/ N/A	5.5 3.9 2.0 0.6	100%	Subsidiary
11. 上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited)	沈學鋒 (Shen Xuefeng) (50%) 程濟美 (Cheng Jimei) (41.5%) 上海大昌行經貿有限公司 Shanghai Dah Chong Hong Trading Ltd. (8.5%)	Triangle Motors (China) Limited	14 Apr 1997	RMB12 million/ N/A	6 4.98 –	100%	Subsidiary
12. 寧波眾鈴汽車貿易有限公司 (Ningbo Zhongling Motors Trading Limited)	上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited) (67%) 仲玉林 (Zhong Yulin) (33%)	Triangle Motors (China) Limited	17 Aug 2000	RMB12 million/ N/A	– 4	100%	Subsidiary
13. 深圳市眾運汽車貿易有限公司 (Shenzhen Zhongyun Motors Trading Limited)	仲玉林 (Zhong Yulin) (60%) 上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited) (40%)	Triangle Motors (China) Limited	16 Feb 1998	RMB10 million/ N/A	6 –	100%	Subsidiary

Name of OPCOs	Name of Registered Owner(s)/ Owner(s) and shareholding	Name of Holding Subsidiary	Date of establishment of OPCOs	Registered capital/ Total investment	Amount of loan advanced under the Contractual Arrangements Agreement(s)	Group's attributable interests	Subsidiary/ Associate/ Jointly controlled entity
					(RMB million)		
14. 昆明合達汽車銷售服務有限公司 (Kunming Heda Motors Sale and Service Limited)	深圳市眾運汽車貿易有限公司 (Shenzhen Zhongyun Motors Trading Limited) (60%) 仲玉林 (Zhong Yulin) (40%)	Triangle Motors (China) Limited	14 Aug 2001	RMB5 million/ N/A	– 2	100%	Subsidiary
15. 昆明合運汽車貿易有限公司 (Kunming Heyun Motors Trading Limited)	仲玉林 (Zhong Yulin) (30%) 程濟美 (Cheng Jimei) (44%) 上海賓利汽車銷售有限公司 (Bentley Shanghai Motor Sales Ltd.) (20%) 上海大昌行經貿有限公司 Shanghai Dah Chong Hong Trading Ltd. (6%)	Triangle Motors (China) Limited	15 Nov 1999	RMB5 million/ N/A	1.5 2.2 – –	100%	Subsidiary
16. 江門市寶昌汽車銷售服務有限公司 (Jiangmen Baochang Motors Sale and Service Limited)	仲玉林 (Zhong Yulin) (50%) 蔡兆敏 (Cai Zhaomin) (50%)	Dah Chong Hong Motors (China) Limited	16 Apr 2003	RMB12 million/ N/A	6 6	100%	Subsidiary
17. 廣東駿現汽車貿易有限公司 (Guangdong Junxian Motors Trading Limited)	程濟美 (Cheng Jimei) (20%) 仲玉林 (Zhong Yulin) (80%)	Dah Chong Hong Motors (China) Limited	7 Jul 2004	RMB10 million/ N/A	2 8	100%	Subsidiary
18. 湛江市駿華豐田汽車銷售服務有限公司 (Zhanjiang Junhua Toyota Motors Sale and Service Limited)	蔡兆敏 (Cai Zhaomin) (50%) 仲玉林 (Zhong Yulin) (50%)	Dah Chong Hong Motors (China) Limited	2 Jul 2003	RMB6 million/ N/A	3 3	100%	Subsidiary
19. 湛江市駿誠汽車銷售服務有限公司 (Zhangjiang Juncheng Motors Sale and Service Limited)	蔡兆敏 (Cai Zhaomin) (80%) 仲玉林 (Zhong Yulin) (20%)	Dah Chong Hong Motors (China) Limited	16 Dec 2005	RMB12 million/ N/A	9.6 2.4	100%	Subsidiary
20. 雲南中馳汽車銷售服務有限公司 (Yunnan Zhongchi Motors Sale and Service Limited)	蔡兆敏 (Cai Zhaomin) (50%) 仲玉林 (Zhong Yulin) (50%)	Dah Chong Hong Motors (China) Limited	30 Dec 2003	RMB6.15 million/ N/A	3.075 3.075	100%	Subsidiary

Name of OPCOs	Name of Registered Owner(s)/ Owner(s) and shareholding	Name of Holding Subsidiary	Date of establishment of OPCOs	Registered capital/ Total investment	Amount of loan advanced under the Contractual Arrangements Agreement(s)	Group's attributable interests	Subsidiary/ Associate/ Jointly controlled entity
					(RMB million)		
21. 昆明聯亞豐田汽車銷售服務有限公司 (Kunming Lianya Toyota Motors Sale and Service Limited)	孫海文 (Sun Haiwen) (70%) 宋志良 (Song Zhiliang) (30%)	Dah Chong Hong Motors (China) Limited	30 Sep 2003	RMB5 million/ N/A	3.5 1.5	100%	Subsidiary
22. 廣州眾協汽車貿易有限公司 (Guangzhou Zhongxie Motors Trading Limited)	湛江市駿凱汽車技術服務有限公司 (Zhangjiang Junkai Motors Technology and Service Limited) (80%) 仲玉林 (Zhong Yulin) (20%)	Dah Chong Hong Motors (China) Limited	28 Sep 2003	RMB10 million/ N/A	– 2	100%	Subsidiary
23. 廣東通達舊機動車交易市場經營有限公司 (Guangdong Tongda Used Automobiles Trading Limited)	蔡兆敏 (Cai Zhaomin) (22.68%)	Dah Chong Hong Motors (China) Limited	31 Oct 2003	RMB19.22 million/ N/A	4.36	22.68%	Associate
24. 東莞市東昌汽車銷售服務有限公司 (Dongguan Dongchang Motors Sale and Service Limited)	蔡兆敏 (Cai Zhaomin) (77.50%)	Dah Chong Hong Motors (China) Limited	4 Sep 2001	RMB10 million/ N/A	7.75	77.5%	Jointly controlled entity
25. 深圳市深昌汽車貿易有限公司 (Shenzhen Shenchang Motors Trading Limited)	蔡兆敏 (Cai Zhaomin) (50%) 仲玉林 (Zhong Yulin) (50%)	Dah Chong Hong Motors (China) Limited	5 Sep 2003	RMB5 million/ N/A	2.5 2.5	100%	Subsidiary
26. 廣州合駿汽車貿易有限公司 (Guangzhou Hejun Motors Trading Limited)	程濟美 (Cheng Jimei) (56.50%) 仲玉林 (Zhong Yulin) (33.50%) 湛江市駿凱汽車技術服務有限公司 (Zhangjiang Junkai Motors Technology and Service Limited) (10%)	Dah Chong Hong Motors (China) Limited	18 Aug 2000	RMB10 million/ N/A	5.65 3.35 –	100%	Subsidiary

Name of OPCOs	Name of Registered Owner(s)/ Owner(s) and shareholding	Name of Holding Subsidiary	Date of establishment of OPCOs	Registered capital/ Total investment	Amount of loan advanced under the Contractual Arrangements Agreement(s)	Group's attributable interests	Subsidiary/ Associate/ Jointly controlled entity
					(RMB million)		
27. 湛江市駿浩汽車有限公司 (Zhanjiang Junhao Motors Limited)	蔡兆敏 (Cai Zhaomin) (50%) 仲玉林 (Zhong Yulin) (50%)	Dah Chong Hong Motors (China) Limited	18 Apr 2003	RMB5 million/ N/A	2.5 2.5	100%	Subsidiary
28. 廣東日產汽車貿易有限公司 (Guangdong Nissan Motors Trading Limited)	王靜芬 (Wang Jingfen) (50%)	Dah Chong Hong Motors (Nissan-China) Limited	15 Aug 2000	RMB10 million/ N/A	5	50%	Jointly controlled entity
29. 福州合創汽車貿易有限公司 (Fuzhou Hechuang Motors Trading Limited)	蔡兆敏 (Cai Zhaomin) (80%) 仲玉林 (Zhong Yulin) (20%)	Reliance Motors, Limited	21 Apr 2004	RMB10 million/ N/A	8 2	100%	Subsidiary
30. 上海捷高汽車零配件銷售有限公司 (Shanghai JAPCO Auto Parts Sale Limited) *(Note 1)*	宋志良 (Song Zhiliang) (33.33%) 閻肅 (Yan Su) (66.67%)	捷高汽車零件(廣州)有限公司 JAPCO Auto Parts (Guangzhou) Co., Ltd.	10 Jun 1998	RMB0.6 million/ N/A	0.2 0.4	100%	Subsidiary
31. 錫林郭勒大昌行肉業有限公司 (Xilingguole Dah Chong Hong Meat Industry Limited)	上海大昌行食品工業有限公司 Shanghai DCH Food Industries Ltd. (90%) 楊福祥 (Yang Fuxiang) (10%)	Dah Chong Hong (China) Limited	9 Jun 2007	RMB1 million/ N/A	– 0.1	100%	Subsidiary
32. 江門大昌行供應鏈管理有限公司 (Jiangmen DCH Supply Chain Management Co., Ltd.)	上海宏圖電器有限公司 (Shanghai Vision Electrical Appliances Co., Ltd.) (90%) 江門大昌貿易行有限公司 Dah Chong Hong (Jiangmen) Limited (10%)	DCH Supply Chain Management Company Limited	14 Mar 2006	RMB1 million/ N/A	0.9 0.1	100%	Subsidiary

Name of OPCOs	Name of Registered Owner(s)/ Owner(s) and shareholding	Name of Holding Subsidiary	Date of establishment of OPCOs	Registered capital/ Total investment	Amount of loan advanced under the Contractual Arrangements Agreement(s)	Group's attributable interests	Subsidiary/ Associate/ Jointly controlled entity
					(RMB million)		
33. 江門市合禮汽車銷售服務有限公司 (Jiangmen Heli Motors Sale and Service Limited)	江門市寶昌汽車銷售服務有限公司 (Jiangmen Baochang Motors Sale and Service Limited) (10%)	江門市寶昌汽車銷售服務有限公司 (Jiangmen Baochang Motors Sale and Service Limited)	13 Sep 2006	RMB20 million/ N/A	–	85%	Subsidiary
	江門市美昌汽車貿易有限公司 (Jiangmen Meichang Motors Trading Limited) (75%) (Note 2)				15		
34. 廣州賓利汽車貿易有限公司 (Bentley Guangzhou Motor Trading Limited)	上海賓利汽車銷售有限公司 (Bentley Shanghai Motor Sales Ltd.) (51%)	DCH Motors (Bentley) Limited	22 Oct 2007	RMB10 million/ N/A	–	100%	Subsidiary
	蔡兆敏 (Cai Zhaomin) (49%)				4.9		

Notes:

1. 上海捷高汽車零配件銷售有限公司 (Shanghai JAPCO Auto Parts Sale Limited) was dissolved during the year after listing of the Company.

2. This Registered Owner is not a natural person because of the commercial agreement between the joint venture parties.

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a specific waiver in respect of each Contractual Arrangements from strict compliance with the applicable announcement and independent shareholders approval requirements of Chapter 14A of the Listing Rules during the subsistence of the Contractual Arrangements.

The independent non-executive directors have reviewed the Contractual Arrangements and confirmed that (i) the terms of the subsisting Contractual Arrangements have remained unchanged, (ii) the transactions carried out during the year remained consistent with the relevant provisions of the Contractual Arrangements as disclosed in the Prospectus, (iii) any dividends or other distributions declared by OPCOs have been paid to the members of the Group in Hong Kong or PRC acting as the intermediate holding company ("Holding Subsidiary") and not to the Registered Owners and (iv) the new Contractual Arrangements entered into during 2007 after listing were fair and reasonable so far as the Group was concerned and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have confirmed that the Contractual Arrangements listed above have received the approval of the Board of Directors of the Company, the transactions carried out under the Contractual Arrangements have been entered into in accordance with the relevant agreements in place governing each arrangement, the terms of the agreements are in agreement with that set out in the section headed "Business – Contractual Arrangements" of the Prospectus, and that no dividends were declared by OPCOs for the year ended 31 December 2007.

Share Option Plans

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme ("Pre-IPO Scheme") on 28 September 2007. The major terms of the Pre-IPO Scheme are as follows:

1. The purpose of the Pre-IPO Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to the employees and to promote the long term success of the Company.

2. The participants of the Pre-IPO Scheme are any employee of the Group as the Board may in its absolute discretion select.

3. The maximum number of shares over which options may be granted under the Pre-IPO Scheme shall not exceed 18,000,000 shares, being 1% of the total number of issued shares immediately following the commencement of dealings of the Company's shares on the Stock Exchange.

4. The grantee shall not, within 6 months from the listing of the Company, exercise any of the options granted under the Pre-IPO Scheme.

5. The exercise period of any option granted under the Pre-IPO Scheme must not be more than five years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee.

7. The subscription price shall be HK$5.88 which is equal to the initial public offer price of the Company's shares upon listing.

8. No options will be offered or granted under the Pre-IPO Scheme upon the commencement of dealings in the Company's shares on the Stock Exchange.

Since the adoption of the Pre-IPO Scheme, the Company has granted one lot of options before the listing of the Company:

Date of grant	Number of options	Exercise price per share HK$
3 October 2007	18,000,000	5.88

All options granted and accepted fully vested on the date of grant but have a lock-up period of 6 months from the listing of the Company and are then exercisable in whole or in part within 5 years from the date of grant.

None of the options granted under the Pre-IPO Scheme were cancelled or lapsed during the year up to 31 December 2007. A summary of the movements during the year ended 31 December 2007 of the options is as follows:

1. Directors of the Company

			Number of options				
Name of director	Date of grant	Exercise price per share HK$	Balance as at 1.1.07	Granted during the year ended 31.12.07	Exercised during the year ended 31.12.07	Balance as at 31.12.07	Percentage of issued share capital
Hui Ying Bun	3 Oct 07	5.88	–	1,700,000	–	1,700,000	0.094%
Chu Hon Fai	3 Oct 07	5.88	–	1,200,000	–	1,200,000	0.067%
Yip Moon Tong	3 Oct 07	5.88	–	1,000,000	–	1,000,000	0.056%
Mak Kwing Tim	3 Oct 07	5.88	–	800,000	–	800,000	0.044%
Lau Sei Keung	3 Oct 07	5.88	–	800,000	–	800,000	0.044%
Tsoi Tai Kwan, Arthur	3 Oct 07	5.88	–	800,000	–	800,000	0.044%
Glenn Robert Sturrock Smith	3 Oct 07	5.88	–	500,000	–	500,000	0.028%
Chan Kin Man, Andrew	3 Oct 07	5.88	–	500,000	–	500,000	0.028%

2. Employees of the Company working under continuous contracts (as defined in the Employment Ordinance), other than the Directors

		Number of options				
Date of grant	Exercise price per share HK$	Balance as at 1.1.07	Granted during the year ended 31.12.07	Exercised during the year ended 31.12.07	Balance as at 31.12.07	Percentage of issued share capital
3 Oct 07	5.88	–	10,700,000	–	10,700,000	0.594%

The fair value of an option on one share of the Company granted in the period under review measured as at the date of grant of 3 October 2007 was HK$1.51 based on the following assumptions using the Binomial Model:

- Expected volatility of the Company's share price at 33% per annum with reference to the historical movements of its comparators' share prices
- Expected dividend yield of 2% per annum
- Rate of eligible grantees leaving service assumed at 4% per annum
- Early exercise assumption for option holders to exercise their options when the share price is at least 166% of the exercise price

- Taking into account the probability of early exercise behaviour and rate of leaving service, the average expected term of the grant was determined to be 3.61 years

- Risk-free interest rate of 3.94% per annum (based on linearly interpolated yield of the Hong Kong Exchange Fund Notes as at the grant date)

The result of the Binomial Model can be materially affected by changes in these assumptions so an option's actual value may differ from the estimated fair value of the options due to limitations of the model.

All the options forfeited before expiry will be treated as lapsed options which will not be added back to the number of shares available to be issued under the Pre-IPO Scheme.

The total expense recognised in the Company's income statement for the year ended 31 December 2007 in respect of the grant of the aforesaid 18,000,000 options is HK$27.2 million.

Post-IPO Share Option Scheme

The Company adopted the Post-IPO Share Option Scheme ("Post-IPO Scheme") on 28 September 2007. The major terms of the Post-IPO Scheme are as follows:

1. The purpose of the Post-IPO Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to the employees and to promote the long term success of the Company.

2. The participants of the Post-IPO Scheme are any employee of the Group as the Board may in its absolute discretion select.

3. The maximum number of shares over which options may be granted under the Post-IPO Scheme and any other schemes of the Company shall not in aggregate exceed 10% of (i) the shares in issue of the Company immediately following the commencement of dealings in the Company's shares on the Stock Exchange or (ii) the shares in issue of the Company from time to time, whichever is the lower. As at 12 March 2008, the maximum number of shares available for issue under the Post-IPO Scheme is 161,929,800, representing approximately 9% of the issued share capital of the Company. Options lapsed in accordance with the terms of the Post-IPO Scheme or any other schemes of the Company will not be counted for the purpose of calculating the 10% limit.

4. The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the shares of the Company in issue.

5. The exercise period of any option granted under the Post-IPO Scheme must not be more than ten years commencing on the date of grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee.

7. The subscription price determined by the Board will not be less than whichever is the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

8. The Post-IPO Scheme shall be valid and effective till 27 September 2017, after which no further options will be granted.

The Company has not granted any options under the Post-IPO Scheme.

Directors' Interests In Securities

The interests of the directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 31 December 2007 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. Shares in the Company

Name of director	Number of shares: Personal interests unless otherwise stated	Number of shares: Percentage to the issued share capital
Hui Ying Bun	216,000	0.012%
Chu Hon Fai	200,000	0.011%
Yip Moon Tong	100,000 (Note 1)	0.006%
Mak Kwing Tim	100,000	0.006%
Lau Sei Keung	80,000	0.004%
Tsoi Tai Kwan, Arthur	51,000 (Note 2)	0.003%
Chan Kin Man, Andrew	50,000	0.003%
Chau Chi Yin	21,000	0.001%

Notes:

1. Jointly held with his spouse.

2. Personal interest in respect of 50,000 shares and interest by attribution in respect of 1,000 shares.

2. Shares in an associated corporation, CITIC Pacific Limited

Name of director	Number of shares: Personal interests unless otherwise stated	Number of shares: Percentage to the issued share capital
Hui Ying Bun	337,000	0.01523%
Chu Hon Fai	193,000	0.00872%
Mak Kwing Tim	5,000	0.00023%
Lau Sei Keung	1,000	0.00005%
Tsoi Tai Kwan, Arthur	43,000 (Note 1)	0.00194%
Chau Chi Yin	536,000	0.02423%
Chan Chui Sheung, Stella	5,000	0.00023%

Note:

1. Personal interest in respect of 18,000 shares and interest by attribution in respect of 25,000 shares.

3. Shares in an associated corporation, CITIC 1616 Holdings Limited

Name of director	Number of shares: Personal interests unless otherwise stated	Percentage to the issued share capital
Chau Chi Yin	26,750	0.001%

4. Options in the Company

The interests of the directors in the options (being regarded as unlisted physically settled equity derivatives) of the Company are stated in details in the preceding section of Share Option Plans.

5. Options in an associated corporation, CITIC Pacific Limited

			Number of options				
Name of director	Date of grant	Exercise price per share HK$	Balance as at 17.10.07 (Note 1)	Granted during the period ended 31.12.07	Exercised during the period ended 31.12.07	Balance as at 31.12.07	Percentage of issued share capital
Hui Ying Bun	1 Nov 2004	19.90	300,000	–	–	300,000	
	20 Jun 2006	22.10	300,000	–	–	300,000	
						600,000	0.027%
Chu Hon Fai	1 Nov 2004	19.90	200,000	–	–	200,000	
	20 Jun 2006	22.10	200,000	–	–	200,000	
						400,000	0.018%
Chau Chi Yin	1 Nov 2004	19.90	500,000	–	–	500,000	
	20 Jun 2006	22.10	800,000	–	–	800,000	
	16 Oct 2007	47.32	–	800,000	–	800,000	
						2,100,000	0.095%
Kwok Man Leung	20 Jun 2006	22.10	250,000	–	250,000	–	
	16 Oct 2007	47.32	–	600,000	–	600,000	
						600,000	0.027%
Chan Chui Sheung, Stella	16 Oct 2007	47.32	–	600,000	–	600,000	0.027%

Notes:

1. The Company is required to set up the register required to be kept under section 352 of SFO upon the listing of the Company on 17 October 2007.

2. The options were granted by CITIC Pacific Limited, the holding company of the Company.

Save as disclosed above, as at 31 December 2007, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Substantial Shareholders

As at 31 December 2007, the interests of the substantial shareholders, other than the directors of the Company or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	**Number of shares of the Company**	**Percentage to the issued share capital**
CITIC Pacific Limited	1,018,800,000	56.60%
Davenmore Limited	1,018,800,000	56.60%
Colton Pacific Limited	800,922,200	44.50%
Chadacre Developments Limited	245,102,000	13.62%
Ascari Holdings Ltd.	217,877,800	12.10%
Cornaldi Enterprises Limited	95,317,400	5.30%

Colton Pacific Limited beneficially held 378,802,200 shares and was deemed to be interested in 422,120,000 additional shares held by Chadacre Developments Limited as to 245,102,000 shares, Cornaldi Enterprises Limited as to 95,317,400 shares, Corton Enterprises Limited as to 54,467,000 shares, Dashing Investments Limited as to 13,616,800 shares and Karaganda Limited as to 13,616,800 shares.

Ascari Holdings Ltd. was deemed to be interested in 217,877,800 shares through Silver Ray Enterprises Inc. as to 55,877,800 shares, Grogan Inc. as to 81,000,000 shares, Greenlane International Holdings Inc. as to 81,000,000 shares.

Davenmore Limited was deemed to be interested in 1,018,800,000 shares as Colton Pacific Limited and Ascari Holdings Ltd. were its wholly-owned subsidiary companies.

CITIC Pacific Limited was deemed to be interested in 1,018,800,000 shares as Davenmore Limited was its wholly-owned subsidiary company.

Arrangement for Acquisition of Shares or Debentures

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiary companies or fellow subsidiary companies, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 32 to the financial statements.

Neither the Company nor any of its subsidiary companies purchased or sold any of the Company's shares during the year ended 31 December 2007 and the Company did not redeem any of its shares during the year ended 31 December 2007.

Service Contracts

As at 31 December 2007, there were no service contracts which were not determinable by the employer within one year without payment of compensation (other than statutory compensation) between any company in the Group and any director proposed for re-election at the forthcoming Annual General Meeting.

Auditors

The financial statements for the year have been audited by KPMG who shall retire and, being eligible, shall offer themselves for re-appointment. A resolution for the re-election of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing Rules since its listing on 17 October 2007 up to 31 December 2007.

By order of the Board
Hui Ying Bun *Chairman*
Hong Kong, 12 March 2008

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Dah Chong Hong Holdings Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Dah Chong Hong Holdings Limited ("the Company") set out on pages 74 to 154, which comprise the consolidated and Company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

(HK$ million)	Note	2007	2006
Turnover	3	**16,050**	12,926
Cost of sales		**(13,705)**	(11,023)
Gross profit		**2,345**	1,903
Net valuation gains on investment properties	13(a)	**127**	112
Other revenue	4	**197**	124
Other net gain	4	**56**	37
Selling and distribution expenses		**(1,052)**	(902)
Administrative expenses		**(962)**	(797)
Profit from operations		**711**	477
Finance costs	5(a)	**(61)**	(43)
Share of profits less losses of associates	18(b)	**2**	(1)
Share of profits less losses of jointly controlled entities	19(b)	**53**	35
Profit before taxation	5	**705**	468
Income tax	6	**(165)**	(93)
Profit from continuing operations		**540**	375
Discontinued operations			
Loss from discontinued operations	9(a)	**(18)**	(40)
Profit for the year		**522**	335
Attributable to:			
Shareholders of the Company		**515**	324
Minority interests		**7**	11
		522	335
Dividends	11	**938**	139
Basic and diluted earnings/(losses) per share	12		
From continuing and discontinued operations (HK cents)		**31.07**	19.98
From continuing operations (HK cents)		**32.18**	22.46
From discontinued operations (HK cents)		**(1.11)**	(2.48)

The notes on pages 82 to 154 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2007

(HK$ million)	Note	**2007**	2006
Non-current assets			
Fixed assets	13(a)		
– Investment properties		**786**	707
– Other property, plant and equipment		**810**	665
		1,596	1,372
Lease prepayments	14	**160**	67
Intangible assets	15	**42**	43
Goodwill	16	**169**	169
Interest in associates	18	**138**	112
Interest in jointly controlled entities	19	**165**	160
Other financial assets	20	**37**	156
Deferred tax assets	31(b)	**27**	19
		2,334	2,098
Current assets			
Assets held for sale	21	**–**	2
Inventories	22	**1,947**	1,529
Trade and other receivables	23	**2,871**	2,609
Gross amount due from customers for contract work	24	**–**	69
Current tax recoverable	31(a)	**6**	6
Cash and bank deposits	25	**1,653**	742
		6,477	4,957
Current liabilities			
Bank loans and overdrafts	26		
– secured		**328**	173
– unsecured		**1,067**	683
Trade and other payables	27	**2,192**	2,216
Gross amount due to customers for contract work	24	**–**	11
Current tax payable	31(a)	**85**	42
		3,672	3,125
Net current assets		**2,805**	1,832
Total assets less current liabilities		**5,139**	3,930

CONSOLIDATED BALANCE SHEET

at 31 December 2007

(HK$ million)	Note	2007	2006
Non-current liabilities			
Bank loans	26		
– secured		**2**	7
– unsecured		**550**	–
Deferred tax liabilities	31(b)	**196**	160
		748	167
Net assets		**4,391**	3,763
Capital and reserves			
Share capital		**270**	210
Reserves		**4,012**	3,445
Total equity attributable to shareholders of the Company		**4,282**	3,655
Minority interests		**109**	108
Total equity		**4,391**	3,763

Approved and authorised for issue by the board of directors on 12 March 2008

Hui Ying Bun
Director

Yip Moon Tong
Director

The notes on pages 82 to 154 form part of these financial statements.

BALANCE SHEET

at 31 December 2007

(HK$ million)	Note	**2007**	2006
Non-current assets			
Investment properties	13(b)	**167**	53
Investment in subsidiaries	17	**19**	19
		186	72
Current assets			
Trade and other receivables	23	**1,740**	2,195
Cash and bank deposits	25	**856**	–
		2,596	2,195
Current liabilities			
Bank loans – unsecured	26	**50**	–
Trade and other payables	27	**243**	560
Current tax payable	31(a)	**3**	7
		296	567
Net current assets		**2,300**	1,628
Total assets less current liabilities		**2,486**	1,700
Non-current liabilities			
Bank loans – unsecured	26	**550**	–
Deferred tax liabilities	31(b)	**14**	9
		564	9
Net assets		**1,922**	1,691
Capital and reserves	32(b)		
Share capital		**270**	210
Reserves		**1,652**	1,481
Total equity		**1,922**	1,691

Approved and authorised for issue by the board of directors on 12 March 2008

Hui Ying Bun
Director

Yip Moon Tong
Director

The notes on pages 82 to 154 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

(HK$ million)	Attributable to shareholders of the Company												
	Share capital (note 32(c))	General reserve (note 32(d)(ii))	Capital reserve (note 32(d)(iii))	Statutory surplus reserve (note 32(d)(iv))	Merger reserve (note 32(d)(v))	Exchange fluctuation reserve (note 32(d)(vii))	Asset revaluation reserve (note 32(d)(viii))	Hedging reserve (note 32(d)(ix))	Fair value reserve (note 32(d)(x))	Retained profits	Total	Minority interests	Total equity
At 1 January 2006	210	237	137	6	1	161	2	(2)	45	2,577	3,374	68	3,442
Capital injection by minority shareholders	–	–	–	–	–	–	–	–	–	–	–	9	9
Minority interests arising from business combination	–	–	–	–	–	–	–	–	–	–	–	17	17
Exchange differences on translation of the financial statements of entities outside Hong Kong:													
– subsidiaries	–	–	–	–	–	13	–	–	–	–	13	3	16
– associates and jointly controlled entities	–	–	–	–	–	4	–	–	–	–	4	–	4
Cash flow hedge: effective portion of changes in fair value	–	–	–	–	–	–	–	3	–	–	3	–	3
Cash flow hedge: transfer from equity to initial carrying amount of non–financial hedged items	–	–	–	–	–	–	–	2	–	–	2	–	2
Changes in fair value of available-for-sale equity securities	–	–	–	–	–	–	–	–	74	–	74	–	74
Transfer from retained profits	–	1	–	3	–	–	–	–	–	(4)	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	324	324	11	335
Dividends (note 11)	–	–	–	–	–	–	–	–	–	(139)	(139)	–	(139)
At 31 December 2006	210	238	137	9	1	178	2	3	119	2,758	3,655	108	3,763

(HK$ million)	Attributable to shareholders of the Company														
	Share capital (note 32(c))	Share premium (note 32(d)(i))	General reserve (note 32(d)(ii))	Capital reserve (note 32(d)(iii))	Statutory surplus reserve (note 32(d)(iv))	Merger reserve (note 32(d)(v))	Share option reserve (note 32(d)(vi))	Exchange fluctuation reserve (note 32(d)(vii))	Asset revaluation reserve (note 32(d)(viii))	Hedging reserve (note 32(d)(ix))	Fair value reserve (note 32(d)(x))	Retained profits	Total	Minority interests	Total equity
At 1 January 2007	210	–	238	137	9	1	–	178	2	3	119	2,758	3,655	108	3,763
Capitalisation issue (note 32(c)(i))	33	–	–	–	–	–	–	–	–	–	–	–	33	–	33
Shares issued under the global offering (note 32(c)(ii))	27	1,031	–	–	–	–	–	–	–	–	–	–	1,058	–	1,058
Shares issuing costs	–	(55)	–	–	–	–	–	–	–	–	–	–	(55)	–	(55)
Capital injection by minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	1	1
Acquisition of interests from minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(11)	(11)
Disposal of interest to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(4)	(4)
Exchange differences on translation of the financial statements of entities outside Hong Kong:															
– subsidiaries	–	–	–	–	–	–	–	73	–	–	–	–	73	8	81
– associates and jointly controlled entities	–	–	–	–	–	–	–	10	–	–	–	–	10	–	10
Share–based payments	–	–	–	–	–	–	27	–	–	–	–	–	27	–	27
Cash flow hedge: transfer from equity to initial carrying amount of non–financial hedged items	–	–	–	–	–	–	–	–	–	(3)	–	–	(3)	–	(3)
Disposal of subsidiaries	–	–	–	–	–	–	–	(2)	–	–	–	–	(2)	–	(2)
Disposal of associates	–	–	(3)	6	–	–	–	(2)	–	–	–	(11)	(10)	–	(10)
Transfer from retained profits	–	–	2	–	11	–	–	–	–	–	–	(13)	–	–	–
Changes in fair value of available-for-sale equity securities	–	–	–	–	–	–	–	–	–	–	139	–	139	–	139
Disposal of available-for-sale equity securities	–	–	–	–	–	–	–	–	–	–	(258)	–	(258)	–	(258)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	515	515	7	522
Dividends (note 11)	–	–	–	–	–	–	–	–	–	–	–	(900)	(900)	–	(900)
At 31 December 2007	270	976	237	143	20	1	27	257	2	–	–	2,349	4,282	109	4,391

The notes on pages 82 to 154 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

(HK$ million)	Note	2007	2006
Operating activities			
Profit/(loss) before taxation			
– From continuing operations		**705**	468
– From discontinued operations		**(18)**	(40)
		687	428
Adjustments for:			
– Net valuation gains on investment properties		**(127)**	(112)
– Depreciation and amortisation		**166**	143
– Impairment losses on amount due from an associate		**3**	8
– (Reversal)/provision of impairment losses on trade receivables		**(2)**	15
– Impairment loss on amount due from a jointly controlled entity		**8**	–
– Expected losses on construction contracts		**8**	23
– Finance costs		**61**	43
– Dividend income from listed investment		**(4)**	(2)
– Interest income		**(53)**	(14)
– Share of profits less losses of associates		**(2)**	1
– Share of profits less losses of jointly controlled entities		**(53)**	(35)
– Share-based payments		**27**	2
– Net gain on disposal of fixed assets		**(4)**	(21)
– Net gain on disposal of subsidiaries		**(2)**	–
– Net gain on disposal of associates		**(2)**	–
– Net gain on disposal of a jointly controlled entity		**(1)**	–
– Net gain on disposal of certain assets and novation of certain business contracts		**(33)**	–
– Foreign exchange loss		**49**	13
Operating profit before changes in working capital		**726**	492
Increase in inventories		**(418)**	(53)
Increase in trade and other receivables		**(583)**	(106)
Decrease in gross amount due from customers for contract work		**30**	3
Increase in trade and other payables		**506**	140
Increase/(decrease) in gross amount due to customers for contract work		**13**	(16)
Cash generated from operations		**274**	460
Tax paid:			
– Hong Kong Profits Tax paid		**(54)**	(51)
– Hong Kong Profits Tax refunded		**3**	2
– Taxation outside Hong Kong paid		**(50)**	(31)
Net cash generated from operating activities		**173**	380

(HK$ million)	Note	2007	2006
Investing activities			
Payment for purchase of fixed assets		**(298)**	(256)
Payment for purchase of lease prepayments		**(24)**	–
Proceeds from disposal of fixed assets		**76**	93
Proceeds from disposal of certain assets and novation of certain business contracts		**33**	–
Purchase of shares from minority shareholders		**(13)**	–
Repayment of amounts due from associates		**–**	62
Advances to associates		**(15)**	(55)
Capital injection to associates		**(16)**	(4)
Repayment of amounts due from jointly controlled entities		**65**	65
Advances to jointly controlled entities		**(3)**	(65)
Capital injection to jointly controlled entities		**(10)**	(34)
Net cash inflow from purchase of subsidiaries	33	**–**	25
Net cash outflow from disposal of subsidiaries		**(22)**	–
Interest received		**53**	14
Dividend received from listed investments		**4**	2
Dividend received from an associate		**–**	8
Dividend received from jointly controlled entities		**55**	49
Proceeds from disposal of a jointly controlled entity		**1**	–
Proceeds from disposal of unlisted investments		**4**	–
Repayment from/(advances to) a fellow subsidiary		**242**	(4)
Net cash generated from/(used in) investing activities		**132**	(100)
Financing activities			
Proceeds from new bank loans		**3,917**	948
Repayment of bank loans		**(2,889)**	(965)
Proceeds from capitalisation issue		**33**	–
Proceeds from the global offering		**1,058**	–
Share issuing costs		**(55)**	–
Proceeds from issuance of shares to minority shareholders		**1**	9
(Repayment to)/advances from ultimate holding company		**(514)**	126
Interest paid		**(61)**	(43)
Dividends paid to shareholders of the Company		**(900)**	(139)
Net cash generated from/(used in) financing activities		**590**	(64)
Net increase in cash and cash equivalents		**895**	216
Cash and cash equivalents at 1 January		**697**	475
Effect of foreign exchange rates changes		**33**	6
Cash and cash equivalents at 31 December	25	**1,625**	697

Major non-cash transactions

(a) As part of the disposal of DCH (Engineering) Limited and its subsidiaries ("DCH (Engineering) group") during the year, the loans to DCH (Engineering) group of HK$44.6 million was assigned to the ultimate holding company with a consideration of HK$44.6 million.

(b) As part of the disposal of an associate during the year, loans to the associate of HK$24.2 million was assigned to fellow subsidiary of the Group with a consideration of HK$24.2 million.

The notes on pages 82 to 154 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

1 Significant accounting policies *(continued)*

(c) Subsidiaries and minority interests *(continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)).

(d) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and 1(m)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

1 Significant accounting policies *(continued)*

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's or the controlling equity shareholder's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(m)).

Any excess of the Group's or the controlling equity shareholder's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash-generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

In accordance with the transitional arrangements under HKFRS 3, *Business Combinations*, goodwill which had previously been taken directly to reserve (i.e. goodwill which arose before 1 January 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under other circumstances.

(f) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

— Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(m)).

— Other investments in securities are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the accounting policy set out in note 1(w)(ix) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the accounting policy set out in note 1(w)(x). When these investments are derecognised or impaired (see note 1(m)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or on the date of expiry.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(h)).

1 Significant accounting policies *(continued)*

(h) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above accounting policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(w)(vii).

When the Group or the Company holds a property interest held under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(l)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(l).

(j) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(m)):

– freehold land and buildings;

– land held under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 1(l));

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(l)); and

– other items of plant and equipment.

1 Significant accounting policies *(continued)*

(j) Other property, plant and equipment *(continued)*

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rate specified below.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method or reducing balance basis over their estimated useful lives as follows:

– Freehold land is not depreciated.

– Buildings situated on freehold land are depreciated on a straight-line basis over their estimated useful life, being no more than 50 years after the date of completion.

– Buildings situated on leasehold land are depreciated on a straight line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

– Motor vehicles held for use under operating leases are depreciated on a reducing balance basis at 30% per annum.

– Other plant and equipment are depreciated on a straight line basis over their estimated useful lives of 4 to 10 years.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight line basis over the assets' estimated useful lives, being 8 years to 10 years.

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys rights to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(l) Leased assets *(continued)*

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Operating lease charges

Where the Group has the using rights of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term except where the property is classified as an investment property (see note 1(i)).

(m) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 1(m)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant accounting policies *(continued)*

(m) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and other receivables *(continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivable and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant accounting policies *(continued)*

(m) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries, associates and jointly controlled entities; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

1 Significant accounting policies *(continued)*

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on first-in-first-out, specific identification or weighted average basis as appropriate and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Construction contracts

The accounting policy for contract revenue is set out in note 1(w)(vi). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade and other receivables". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Trade and other payables".

(p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

1 Significant accounting policies *(continued)*

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(t) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees of the Group by the ultimate holding company, CITIC Pacific Limited ("CITIC Pacific"), under the CITIC Pacific Share Incentive Plan 2000 (the "Plan"), is recognised as an employee cost with a corresponding increase in amount due to the ultimate holding company as the employee cost will be settled in cash by the Group. The fair value of share options granted to employees of the Group by the Company under the Company's Pre-IPO Share Option Scheme is recognised as an employee cost with a corresponding increase in share option reserve within equity.

The fair value is measured at the grant date using applicable option-pricing models, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

1 Significant accounting policies *(continued)*

(t) Employee benefits *(continued)*

(ii) Share-based payments *(continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the amount due to the ultimate holding company and share option reserve for the share options granted by CITIC Pacific and the Company respectively. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the ultimate holding company's and the Company's shares. For the share options granted by the Company, the equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 Significant accounting policies *(continued)*

(u) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable rights to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms a debt instrument.

1 Significant accounting policies *(continued)*

(v) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(i) Financial guarantees issued *(continued)*

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's accounting policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(v)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of motor vehicles

Revenue arising from the sale of motor vehicles is recognised when the registration document is issued or on delivery of motor vehicles, whichever is earlier, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

(ii) Sales of foodstuff and consumer products

Revenue arising from the sale of foodstuff and consumer products is recognised on delivery of goods to customers. Revenue is after deduction of any trade discounts.

(iii) Repairing services income

Revenue arising from repairing services is recognised when the relevant service is rendered without further performance obligations.

(iv) Logistics service income and other related services income

Revenue is recognised when the service is rendered to customers.

1 Significant accounting policies *(continued)*

(w) Revenue recognition *(continued)*

(v) Transportation service income

Revenue on transportation service provided to customers is recognised when the service is completed.

(vi) Contract work income

Revenue from contract work is recognised when the outcome of a construction contract can be estimated reliably:

– revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

– revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total earned, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(vii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(viii) Commission income

Commission income is recognised at the time when the goods concerned are sold to customers.

(ix) Dividends

Dividend income from unlisted investments is recognised when the shareholder's rights to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(x) Interest income

Interest income is recognised as it accrues using the effective interest method.

(xi) Publicity allowances from principals

Publicity allowances from principals are recognised when the rights to receive payment has been established.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

1 Significant accounting policies *(continued)*

(x) Translation of foreign currencies *(continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transactions dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of operations outside Hong Kong acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of an operation outside Hong Kong acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the operation outside Hong Kong.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation outside Hong Kong is included in the calculation of the profit or loss on disposal.

(y) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(z) Assets held for sale

An asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the assets (except for certain assets as explained below), are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company in concern are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with their respective accounting policies.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, the non-current asset is not depreciated or amortised.

(aa) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see note 1(z) above), if earlier. It also occurs when the operation is abandoned.

1 Significant accounting policies *(continued)*

(aa) Discontinued operations *(continued)*

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(ab) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(ac) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

1 Significant accounting policies *(continued)*

(ac) Segment reporting *(continued)*

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(ad) Business combinations involving entities under common control

On 29 June 2007, the Group acquired from a wholly-owned subsidiary of its ultimate holding company, CITIC Pacific, the entire equity interests in Yee Lim Godown & Cold Storage Limited ("Yee Lim") for a cash consideration of HK$12.6 million. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the controlling party, and therefore this is considered a business combination under common control and that Accounting Guideline 5 ("AG 5"), *Merger Accounting for Common Control Combinations*, issued by HKICPA is applied for this transaction. The financial statements have been prepared using the merger basis of accounting as if the enlarged group had always been in existence.

The net assets of the consolidating entities are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the consolidating entities from the earliest date presented or since the date when consolidating entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been consolidated at the previous balance sheet date or when they first came under common control, whichever is shorter.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 34.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 32.

2 Changes in accounting policies *(continued)*

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

3 Turnover and segment reporting

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 43 to the financial statements.

Turnover represents the sales value of goods supplied and services rendered to customers. Turnover recognised during the year is analysed as follows:

(HK$ million)	**2007**	2006
Continuing operations		
Revenue from motor and motor-related business	**10,175**	7,684
Sales of food and consumer products	**5,626**	5,047
Revenue from logistics services	**176**	144
Others	**73**	51
	16,050	12,926
Discontinued operations		
Revenue from construction contracts (note 9(a))	**40**	86
	16,090	13,012

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments
The Group comprises the following main business segments:

Motor	:	The trading and distribution of motor vehicles and the provision of motor vehicle related business.
Food and consumer products	:	The trading and distribution of food and consumer products and other trading.
Logistics	:	The provision of warehousing and transportation services.
Others	:	Mainly represents property and other non-core operations.

3 Turnover and segment reporting *(continued)*

Business segments *(continued)*

(HK$ million)	Motor 2007	Food and consumer products 2007	Logistics 2007	Others 2007	Inter-segment elimination 2007	Total 2007
Turnover						
External customers	10,175	5,626	176	73	–	16,050
Inter-segment revenue	8	–	92	35	(135)	–
Total	10,183	5,626	268	108	(135)	16,050
Segment result	483	149	17	54	–	703
Net valuation gains on investment properties						127
Unallocated operating income and expenses						(119)
Profit from operations						711
Finance costs						(61)
Share of profits less losses						
– associates	(1)	3	–	–	–	2
– jointly controlled entities	4	49	–	–	–	53
Profit before taxation						705
Income tax						(165)
Profit for the year from continuing operations						540
Depreciation and amortisation	116	26	10	14	–	166
Impairment losses (reversed)/ provided on trade receivables	(4)	2	–	–	–	(2)
Net write down of inventories	23	13	–	–	–	36
Segment assets	3,298	2,076	338	860	(44)	6,528
Interests in associates	7	131	–	–	–	138
Interests in jointly controlled entities	68	97	–	–	–	165
Unallocated assets						1,980
Total assets						8,811
Segment liabilities	1,385	722	49	73	(44)	2,185
Unallocated liabilities						2,235
Total liabilities						4,420
Capital expenditure	223	28	101	9	–	361

3 Turnover and segment reporting *(continued)*

Business segments *(continued)*

(HK$ million)	Motor 2006	Food and consumer products 2006	Logistics 2006	Others 2006	Inter-segment elimination 2006	Total 2006
Turnover						
External customers	7,684	5,047	144	51	–	12,926
Inter-segment revenue	4	–	60	32	(96)	–
Total	7,688	5,047	204	83	(96)	12,926
Segment result	298	101	11	81	–	491
Net valuation gains on investment properties						112
Unallocated operating income and expenses						(126)
Profit from operations						477
Finance costs						(43)
Share of profits less losses						
– associates	(4)	3	–	–	–	(1)
– jointly controlled entities	(2)	37	–	–	–	35
Profit before taxation						468
Income tax						(93)
Profit for the year from continuing operations						375
Depreciation and amortisation	97	23	11	12	–	143
Impairment losses provided on trade receivables	2	7	–	–	–	9
Net write down of inventories	2	26	–	–	–	28
Segment assets	2,410	1,992	222	914	(30)	5,508
Interests in associates	7	105	–	–	–	112
Interests in jointly controlled entities	52	108	–	–	–	160
Unallocated assets						1,275
Total assets						7,055
Segment liabilities	924	639	75	41	(30)	1,649
Unallocated liabilities						1,643
Total liabilities						3,292
Capital expenditure	330	14	51	36	–	431

3 Turnover and segment reporting *(continued)*

Geographical segments

The Group's business is classified under three major geographical segments: Hong Kong and Macao, Mainland China (other than Hong Kong and Macao) and others. Others mainly represents Japan, Canada and Singapore.

Segment turnover is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

An analysis of the Group's turnover and assets by geographical areas are as follows:

	Hong Kong and Macao		**Mainland China**		**Others**	
(HK$ million)	**2007**	2006	**2007**	2006	**2007**	2006
Turnover	**6,520**	5,792	**7,637**	5,569	**1,893**	1,565
Segment assets	**2,948**	2,769	**2,072**	1,693	**1,508**	1,046
Capital expenditure	**224**	130	**133**	295	**4**	6

4 Other revenue and net gain

(HK$ million)	**2007**	2006
Other revenue		
Continuing operations		
Commission income and rebate	**98**	86
Interest income from:		
– Bank deposits	**49**	13
– A fellow subsidiary	**–**	1
– Others	**4**	–
Dividend income from listed investments	**4**	2
Miscellaneous	**42**	22
	197	124

4 Other revenue and net gain *(continued)*

(HK$ million)	**2007**	2006
Other net gain		
Continuing operations		
Net gain on disposal of certain assets and novation of certain business contracts	**33**	–
Net gain on disposal of fixed assets:		
– Investment properties	**–**	18
– Other fixed assets	**4**	3
Net foreign exchange gain	**14**	16
Net gain on disposal of subsidiaries	**2**	–
Net gain on disposal of associates	**2**	–
Net gain on disposal of a jointly controlled entity	**1**	–
	56	37

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(HK$ million)	**2007**	2006
(a) Finance costs:		
Continuing operations		
Interest on bank advances and other borrowings wholly repayable within five years	**61**	43
(b) Staff costs:		
Continuing operations		
Contributions to defined contribution retirement plans	**62**	46
Share-based payments	**27**	2
Salaries, wages and other benefits	**1,129**	963
	1,218	1,011
Discontinued operations		
Contributions to defined contribution retirement plans	**–**	1
Salaries, wages and other benefits	**7**	16
	7	17
	1,225	1,028

5 Profit before taxation *(continued)*

Profit before taxation is arrived at after charging/(crediting): *(continued)*

(HK$ million)	**2007**	2006
(c) Rentals income:		
Continuing operations		
Rentals income from investment properties	**(45)**	(42)
Less: Direct outgoings	**13**	15
	(32)	(27)
Rentals income from other operating leases less outgoings	**(133)**	(133)
	(165)	(160)

(HK$ million)	**2007**	2006
(d) Other items:		
Continuing operations		
Amortisation:		
– lease prepayments	**4**	1
– intangible assets	**5**	2
Depreciation	**157**	140
Impairment losses (reversed)/provided:		
– trade receivables	**(2)**	9
– amount due from a jointly controlled entity	**8**	–
– amount due from an associate	**3**	8
Net (gain)/loss on foreign exchange forward contracts	**(9)**	3
Auditors' remuneration	**11**	7
Operating lease rentals in respect of properties	**266**	202
Discontinued operations		
Depreciation	**–**	1
Impairment losses provided on trade receivables	**–**	6
Expected losses on construction contracts	**8**	23
Operating lease rentals in respect of properties	**–**	1

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

(HK$ million)	**2007**	2006
Continuing operations		
Current income tax – Hong Kong Profits Tax		
Provision for the year	**55**	45
Over-provision in previous years	**(2)**	(4)
	53	41
Current income tax – Outside Hong Kong		
Provision for the year	**86**	40
Under/(over)-provision in previous years	**5**	(1)
	91	39
Deferred tax		
Origination and reversal of temporary differences	**24**	13
Effect of change in tax rate (note 6(a)(ii)(c))	**(3)**	–
	21	13
	165	93

(i) Provision for Hong Kong Profits Tax for the year is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

(ii) Pursuant to the income tax rules and regulations of the Mainland China, subsidiaries in the Mainland China are liable to the Enterprise Income Tax of the Mainland China at a rate of 33% during the year, except for the following:

(a) Subsidiaries which are foreign owned enterprises in the Mainland China are entitled to tax concessions whereby they are fully exempted from Enterprise Income Tax of the Mainland China for two years starting from the first profit-making year, following by a 50% reduction in the Enterprise Income Tax of the Mainland China for the next three years.

(b) Certain subsidiaries in the Mainland China are situated in economic or development zones in Shanghai or Shenzhen which enjoy a preferential Enterprise Income Tax rate of 15%, according to the income tax rules and regulations in the Mainland China for the years ended 31 December 2006 and 2007.

6 Income tax in the consolidated income statement *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

(ii) *(continued)*

(c) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the Mainland China ("new tax law") which will take effect on 1 January 2008. Income tax for the Group's subsidiaries, associates and jointly controlled entities in the Mainland China is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic or development zones in the Mainland China ranged from 15% to 33%. Starting from 1 January 2008, the tax rate of the Enterprise Income Tax in the Mainland China is adjusted to the standard rate of 25%. State Council of the Mainland China passed the implementation guidance ("Implementation Guidance") on 26 December 2007, which set out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, the subsidiaries, associates and jointly controlled entities in the Mainland China of the Group, which have not utilised their five-year tax holiday (i.e. two-year exemption and subsequent three-year 50% reduction of the applicable tax rate) will be allowed to continue to enjoy the benefits of the tax holiday during the five-year grandfathering period. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

Further under the new tax law, from 1 January 2008 onwards, Hong Kong enterprises without an establishment or place of business in the Mainland China or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the Mainland China, will be subject to withholding tax at the rate of 5% on dividends derived from sources in the Mainland China. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax.

(iii) Subsidiaries in Macao are liable to Macao income tax during the year. The Macao income tax is calculated at progressive tax rates ranged from 3% to 12% for the years ended 31 December 2006 and 2007.

(iv) Taxation for the subsidiaries outside Hong Kong, Macao and the Mainland China is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions during the year as follows:

	2007	2006
	%	%
Japan	**40.70**	40.70
Canada	**34.12**	34.12
Republic of Singapore	**18.00**	20.00

The subsidiary in Bermuda is not subject to any income tax pursuant to the rules and regulations of Bermuda.

(v) No provision for Hong Kong Profits Tax was made for the discontinued operations as the companies have sustained tax losses during the years ended 31 December 2006 and 2007.

6 Income tax in the consolidated income statement *(continued)*

(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates:

(HK$ million)	**2007**	2006
Profit/(loss) before taxation		
– from continuing operations	**705**	468
– from discontinued operations	**(18)**	(40)
	687	428
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**137**	92
Effect of change in tax rate	**(3)**	–
Tax effect of non-deductible expenses	**34**	24
Tax effect of non-taxable income	**(28)**	(17)
Tax effect of unused tax losses not recognised	**20**	16
Tax effect of prior year's unrecognised deferred tax assets utilised	**(3)**	(10)
Tax effect of prior year's unrecognised deferred tax assets recognised in current year	**(6)**	–
Effect of tax concessions obtained	**(6)**	(7)
Tax effect of recognition of deferred tax liabilities in respect of undistributed profits in current year	**17**	–
Under/(over)-provision in previous years	**3**	(5)
Income tax expense	**165**	93

7 Directors' remuneration

Directors' remuneration for the year ended 31 December 2007 is set out bellow:

(HK$'000)	Directors' fees	Salaries, allowances and other benefits	Discretionary bonuses	Contributions to defined contribution retirement schemes	Sub-total	Share based payments (note)	Total
Executive directors							
Hui Ying Bun	**35**	**1,720**	**4,260**	**148**	**6,163**	**2,567**	**8,730**
Chu Hon Fai	**35**	**1,506**	**2,880**	**134**	**4,555**	**1,812**	**6,367**
Yip Moon Tong	**35**	**1,307**	**2,720**	**125**	**4,187**	**1,510**	**5,697**
Mak Kwing Tim	**35**	**1,516**	**2,400**	**136**	**4,087**	**1,208**	**5,295**
Lau Sei Keung	**35**	**1,197**	**1,710**	**113**	**3,055**	**1,208**	**4,263**
Tsoi Tai Kwan, Arthur	**35**	**1,235**	**1,640**	**113**	**3,023**	**1,208**	**4,231**
Glenn Robert Sturrock Smith	**35**	**2,678**	**1,020**	**68**	**3,801**	**755**	**4,556**
Chan Kin Man, Andrew	**35**	**1,016**	**830**	**50**	**1,931**	**755**	**2,686**
Non-executive directors							
Ho Hau Hay, Hamilton	**35**	**–**	**–**	**–**	**35**	**–**	**35**
Chau Chi Yin	**35**	**–**	**–**	**–**	**35**	**–**	**35**
Kwok Man Leung	**35**	**–**	**–**	**–**	**35**	**–**	**35**
Chan Chui Sheung, Stella	**35**	**–**	**–**	**–**	**35**	**–**	**35**
Independent non-executive directors							
Cheung Kin Piu, Valiant	**35**	**31**	**–**	**–**	**66**	**–**	**66**
Hsu Hsung, Adolf	**35**	**31**	**–**	**–**	**66**	**–**	**66**
Yeung Yue Man	**35**	**31**	**–**	**–**	**66**	**–**	**66**
Directors resigned before the listing							
Yung Chi Kin, Larry	**–**	**29**	**–**	**–**	**29**	**–**	**29**
Fan Hung Ling, Henry	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Lee Chung Hing, Peter	**–**	**8**	**–**	**–**	**8**	**–**	**8**
Total	**525**	**12,305**	**17,460**	**887**	**31,177**	**11,023**	**42,200**

Directors' remuneration for the year ended 31 December 2006 is set out below:

(HK$'000)	Directors' fees	Salaries, allowances and other benefits	Discretionary bonuses	Contributions to defined contribution retirement schemes	Sub-total	Share based payments (note)	Total
Directors							
Hui Ying Bun	–	1,646	3,113	145	4,904	1,176	6,080
Chu Hon Fai	–	1,546	2,200	130	3,876	784	4,660
Yung Chi Kin, Larry	–	47	–	–	47	–	47
Fan Hung Ling, Henry	–	–	–	–	–	–	–
Lee Chung Hing, Peter	–	47	–	–	47	–	47
Ho Hau Hay, Hamilton	–	–	–	–	–	–	–
Total	–	3,286	5,313	275	8,874	1,960	10,834

Note: A number of the Company's directors were granted share options of CITIC Pacific and the Company. Details of the share option plans are set out in note 30.

8 Individuals with highest emoluments

The five highest paid individuals of the Group for the years ended 31 December 2006 and 2007 are also the directors of the Company, whose emoluments are disclosed in note 7.

9 Discontinued operations

On 29 June 2007, the Group's operation in provision of construction works were discontinued following the disposal of DCH (Engineering) group to a wholly-owned subsidiary of CITIC Pacific at the carrying value. The disposal has resulted in a net gain of HK$1.9 million for the year ended 31 December 2007.

(a) The results of the discontinued operations for the year ended 31 December 2006 and up to the date of disposal on 29 June 2007 were as follows:

(HK$ million)	**2007**	2006
Turnover	**40**	86
Cost of sales	**(51)**	(104)
Gross loss	**(11)**	(18)
Selling and distribution expenses	**(1)**	(3)
Administrative expenses	**(6)**	(19)
Loss from discontinued operations	**(18)**	(40)

(b) The net assets of the discontinued operations as at the date of discontinuance were as follows:

(HK$ million)	
Property, plant and equipment	1
Asset held for sale	2
Trade and other receivables	35
Gross amount due from customers for contract work	38
Cash and bank deposits	16
Trade and other payables	(69)
Gross amount due to customers for contract work	(23)
Net assets	–
Release of exchange reserve upon disposal	2
	2

(c) The cash flows of the discontinued operations for the year ended 31 December 2006 and up to the date of disposal on 29 June 2007 were as follows:

(HK$ million)	**2007**	2006
Net cash generated from/(used in) operating activities	**9**	(14)
Net cash used in investing activities	**(9)**	–
Net cash (used in)/generated from financing activities	**(5)**	7
Decrease in cash and cash equivalents	**(5)**	(7)

10 Profit attributable to shareholders of the Company

The consolidated profit attributable to shareholders of the Company includes a profit of HK$95.4 million (2006: HK$209.5 million) which has been dealt with in the financial statements of the Company.

11 Dividends

Dividends attributable to the year are as follows:

(HK$ million)	**2007**	2006
Interim dividend declared and paid of HK$0.56 (2006: HK$6.6) per share (note 32(b))	**900**	139
Final dividend proposed after the balance sheet date of 2.13 HK cents per share (2006: Nil)	**38**	–
	938	139

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12 Basic and diluted earnings/(losses) per share

(a) Basic earnings/(losses) per share

(i) From continuing and discontinued operations

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK$515.0 million (2006: HK$323.7 million) and the weighted average of 1,657,479,452 ordinary shares (2006: 1,620,000,000 ordinary shares after adjusting for the capitalisation issue in 2007) in issue during the year calculated as set out in note 12(a)(iv).

(ii) From continuing operations

The calculation of basic earnings per share from continuing operations is based on the profit from continuing operations attributable to shareholders of the Company of HK$533.3 million (2006: $363.9 million) and the weighted average of 1,657,479,452 ordinary shares (2006: 1,620,000,000 ordinary shares after adjusting for the capitalisation issue in 2007) in issue during the year calculated as set out in note 12(a)(iv).

(iii) From discontinued operations

The calculation of basic losses per share from discontinued operations is based on the loss from discontinued operations attributable to shareholders of the Company of HK$18.3 million (2006: HK$40.2 million) and the weighted average of 1,657,479,452 ordinary shares (2006: 1,620,000,000 ordinary shares after adjusting for the capitalisation issue in 2007) in issue during the year calculated as set out in note 12(a)(iv).

(iv) Weighted average number of ordinary shares

	Number of ordinary shares	
	2007	2006
Issued ordinary shares at 1 January	**21,031,837**	21,031,837
Effect of capitalisation issue (note 32(c))	**1,598,968,163**	1,598,968,163
Effect of shares issued under the global offering	**37,479,452**	–
Weighted average number of ordinary shares	**1,657,479,452**	1,620,000,000

12 Basic and diluted earnings/(losses) per share *(continued)*

(b) Diluted earnings/(losses) per share

The diluted earnings/(losses) per share for the year ended 31 December 2007 is not presented as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

The diluted earnings/(losses) per share for the year ended 31 December 2006 is not presented as there were no potential ordinary shares.

13 Fixed assets

(a) Group

(HK$ million)	Land and buildings held for own use	Others (note 13(c))	Sub-total	Investment properties	Total fixed assets
Cost or valuation:					
At 1 January 2007	387	1,165	1,552	707	2,259
Exchange adjustments	23	26	49	21	70
Additions	117	220	337	–	337
Transfer:					
– among fixed assets	10	(5)	5	(5)	–
– to lease prepayments (note 14)	–	–	–	(64)	(64)
Disposals:					
– through disposals of subsidiaries	–	(5)	(5)	–	(5)
– others	–	(160)	(160)	–	(160)
Fair value adjustment	–	–	–	127	127
At 31 December 2007	537	1,241	1,778	786	2,564
Representing:					
Cost	537	1,241	1,778	–	1,778
Valuation	–	–	–	786	786
At 31 December 2007	537	1,241	1,778	786	2,564
Accumulated depreciation and impairment:					
At 1 January 2007	116	771	887	–	887
Exchange adjustments	5	10	15	–	15
Charge for the year	19	138	157	–	157
Written back on disposals	–	(88)	(88)	–	(88)
Disposals of subsidiaries	–	(3)	(3)	–	(3)
At 31 December 2007	140	828	968	–	968
Net book value:					
At 31 December 2007	397	413	810	786	1,596

13 Fixed assets *(continued)*

(a) Group *(continued)*

(HK$ million)	Land and buildings held for own use	Others (note 13(c))	Sub-total	Investment properties	Total fixed assets
Cost or valuation:					
At 1 January 2006	215	1,179	1,394	587	1,981
Exchange adjustments	6	8	14	(2)	12
Additions:					
– through acquisition of subsidiaries (note 33)	79	19	98	–	98
– others	26	211	237	19	256
Transfer:					
– among fixed assets	61	(61)	–	–	–
– from lease prepayments (note 14)	–	–	–	5	5
– to inventories	–	(6)	(6)	–	(6)
Disposals	–	(185)	(185)	(14)	(199)
Fair value adjustment	–	–	–	112	112
At 31 December 2006	387	1,165	1,552	707	2,259
Representing:					
Cost	387	1,165	1,552	–	1,552
Valuation	–	–	–	707	707
At 31 December 2006	387	1,165	1,552	707	2,259
Accumulated depreciation and impairment:					
At 1 January 2006	87	769	856	–	856
Exchange adjustments	1	4	5	–	5
Additions through acquisition of subsidiaries (note 33)	11	6	17	–	17
Charge for the year	17	123	140	–	140
Transfer to inventories	–	(4)	(4)	–	(4)
Written back on disposals	–	(127)	(127)	–	(127)
At 31 December 2006	116	771	887	–	887
Net book value:					
At 31 December 2006	271	394	665	707	1,372

13 Fixed assets *(continued)*

(b) Company

(HK$ million)	Investment properties **2007**	2006
At valuation:		
At 1 January	**53**	53
Additions	**81**	–
Fair value adjustment	**33**	–
At 31 December	**167**	53

(c) Other fixed assets comprise cargo lighters, computer installations, motor vehicles, plant, machinery, furniture, fixtures and equipment.

(d) Properties valuations

All investment properties of the Group and the Company were revalued as at 31 December 2007 by independent firms of surveyors on an open market value basis by making reference to comparable market transactions and where appropriate on the basis of the capitalisation of the net rental income with due allowance for the reversionary income potential. Details of the independent valuers are as follows:

Investment properties located in	**Name of valuers**
Hong Kong	Knight Frank Petty Limited
Mainland China	Knight Frank Petty Limited
Japan	Tekko Building Co., Limited

Among the staff of Knight Frank Petty Limited are fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

Among the staff of Tekko Building Co., Limited are members of the Japanese Association of Real Estate Appraisal with recent experience in the location and category of property being valued.

13 Fixed assets *(continued)*

(e) The analysis of net book value of properties is as follows:

(HK$ million)	Group 2007	Group 2006	Company 2007	Company 2006
Investment properties				
Leasehold properties held in Hong Kong:				
– Long term lease	**401**	330	**53**	53
– Medium term lease	**–**	–	**114**	–
Medium term leasehold properties held outside Hong Kong	**6**	65	**–**	–
Freehold properties held outside Hong Kong	**379**	312	**–**	–
At 31 December	**786**	707	**167**	53
Other properties				
Leasehold properties held in Hong Kong:				
– Long term lease	**5**	5	**–**	–
– Medium term lease	**98**	17	**–**	–
– Short term lease	**20**	23	**–**	–
Leasehold properties held outside Hong Kong:				
– Long term lease	**10**	–	**–**	–
– Medium term lease	**192**	168	**–**	–
– Short term lease	**24**	19	**–**	–
Freehold properties held outside Hong Kong	**48**	39	**–**	–
At 31 December	**397**	271	**–**	–

(f) Certain buildings situated in the Mainland China with an aggregate net book value of HK$154.2 million (2006: HK$110.8 million) as at 31 December 2007 are built on land leased from third parties in respect of which the Group has yet to obtain property ownership certificates from the relevant authorities. Notwithstanding this, the directors are of the opinion that the Group has the rights to use these buildings during the year.

(g) Fixed assets leased out under operating leases

The Group leases out investment properties and a number of items of other properties, plant and equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date at which time all the terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

(HK$ million)	2007	2006
Within 1 year	**61**	57
After 1 year but within 5 years	**67**	26
After 5 years	**5**	–
	133	83

14 Lease prepayments

(HK$ million)	Group 2007	2006
Cost:		
At 1 January	**72**	26
Exchange adjustments	**9**	2
Additions	**24**	–
Additions through acquisitions of subsidiaries (note 33)	**–**	49
Transfer from/(to) investment properties (note 13(a))	**64**	(5)
At 31 December	**169**	72
Accumulated amortisation:		
At 1 January	**5**	4
Charge for the year	**4**	1
At 31 December	**9**	5
Net book value:		
At 31 December	**160**	67

The analysis of net book value of lease prepayments is as follows:

(HK$ million)	Group 2007	2006
Lease prepayments held outside Hong Kong:		
– Long term lease	**21**	–
– Medium term lease	**139**	67
	160	67

The lease prepayments of the Group represent cost of the land use rights in respect of land located in the Mainland China and Singapore. The remaining period of the land use rights of the Group ranges from 34 to 66 years.

15 Intangible assets

(HK$ million)	Group 2007	2006
Cost:		
At 1 January	**45**	–
Exchange adjustments	**4**	–
Additions through acquisition of subsidiaries (note 33)	**–**	45
At 31 December	**49**	45
Accumulated amortisation:		
At 1 January	**2**	–
Charge for the year	**5**	2
At 31 December	**7**	2
Net book value:		
At 31 December	**42**	43

15 Intangible assets *(continued)*

The Group's principal identifiable intangible assets represent dealership agreements in the Mainland China with various vehicle manufacturers acquired from independent third parties. The dealership agreements do not include a specified contract period or termination arrangement. The management determined the useful life of these rights by making reference to the operating life granted by the relevant authorities of the Mainland China of these subsidiaries. The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

16 Goodwill

	Group	
(HK$ million)	**2007**	2006
Cost and carrying amount:		
At 1 January and 31 December	**169**	169

Impairment tests for cash-generating units containing goodwill
Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and business segment as follows:

(HK$ million)	**2007**	2006
Food and consumer products – Hong Kong	**169**	169

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2007	2006
	%	%
Gross margin	**15.10**	16.20
Growth rate	**13.50**	10.20
Discount rate	**6.58**	5.35

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

17 Investment in subsidiaries

	Company	
(HK$ million)	**2007**	2006
Unlisted shares, at cost	**19**	19

Details of the Company's principal subsidiaries are set out in note 43.

18 Interest in associates

(HK$ million)	Group 2007	Group 2006
Share of net assets	**138**	112

(a) Particulars of associates

The following are the principal associates of the Group which in the opinion of the directors, principally affect the results and net assets of the Group. To give details of other associates would in the opinion of the directors result in particulars of excessive length.

Name of associate	Place of incorporation/ operation	Registered and paid-in capital	Proportion of ownership interest: the Group's effective interest %	Proportion of ownership interest: held by a subsidiary %	Principal activities
大冢慎昌(廣東)飲料有限公司 (Otsuka Sims (Guangdong) Beverage Co., Ltd.)	The People's Republic of China	US$10,000,000	40.00	40.00	Production of beverage
上海雙滙大昌泰森有限公司 (Shanghai Shineway DCH Tyson Co., Ltd.)	The People's Republic of China	RMB194,750,000	26.04	40.00	Production and selling of meat and related food products
廣東偉德利電器製造有限公司 (Guangdong Victory Electrical Appliances Manufacturing Co., Ltd.)	The People's Republic of China	US$10,000,000	20.00	20.00	Production and selling of household electrical appliances

(b) Summary financial information on associates

(HK$ million)	2007 100%	2007 Group's effective interest	2006 100%	2006 Group's effective interest
Assets	**2,476**	**648**	1,933	777
Liabilities	**(2,133)**	**(510)**	(1,766)	(665)
Equity	**343**	**138**	167	112
Revenue	**1,107**	**349**	981	328
Profit/(loss) before taxation	**8**	**2**	(2)	(2)
Income tax	**–**	**–**	1	1
Profit/(loss) for the year	**8**	**2**	(1)	(1)

The Group has not recognised its share of accumulated losses of associates to the extent of HK$Nil (2006: HK$31.6 million) as at 31 December 2007.

19 Interest in jointly controlled entities

(HK$ million)	Group 2007	2006
Share of net assets	**165**	160

(a) Particulars of jointly controlled entities

The following are the principal jointly controlled entities of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give details of other jointly controlled entities would in the opinion of the directors result in particulars of excessive length.

Name of jointly controlled entity	Place of incorporation/ operation	Authorised/ registered/paid-in/ issued capital	Proportion of ownership interest: the Group's effective interest %	Proportion of ownership interest: held by a subsidiary %	Principal activities
北京中遠大昌汽車租賃有限公司 (COSCO – DCH (Beijing) Motor Leasing Company Limited)	The People's Republic of China	Registered capital of RMB80,000,000 and paid-in capital of RMB60,087,502	50.0	50.0	Motor vehicle leasing
北京鳳凰大昌航空設備維修有限公司 DAS Nordisk Phoenix Aviation Equipment Limited	The People's Republic of China	Registered and paid-in capital of RMB4,000,000	24.5	50.0	Manufacture and distribution of air cargo equipment and related spare parts
上海東實航空地面設備有限公司 (Shanghai China Eastern Aero-Equipment Engineering Co., Ltd.)	The People's Republic of China	Registered and paid-in capital of RMB4,000,000	24.5	50.0	Manufacture and distribution of air cargo equipment and related spare parts
Shiseido Dah Chong Hong Cosmetics Limited	Hong Kong	Authorised and issued share capital of HK$123,000,001 at HK$1 each	50.0	50.0	Trading of cosmetic products

(b) Summary financial information on jointly controlled entities – the Group's effective interest

(HK$ million)	2007	2006
Non-current assets	**113**	102
Current assets	**268**	250
Non-current liabilities	**(2)**	(2)
Current liabilities	**(214)**	(190)
Net assets	**165**	160
Income	**692**	614
Expenses	**(626)**	(570)
Profit before taxation	**66**	44
Income tax	**(13)**	(9)
Profit for the year	**53**	35

20 Other financial assets

(HK$ million)	Group 2007	2006
Available-for-sale equity securities		
– Unlisted	**37**	37
– Listed in Hong Kong	**–**	119
	37	156
Market value of listed securities	**–**	119

(a) Before the listing of the Company in 2007, the Group disposed of available-for-sale equity securities listed in Hong Kong to two wholly-owned subsidiaries of CITIC Pacific at original cost of HK$0.1 million. The fair value of these securities as at the date of disposal was HK$257.8 million. The disposal resulted in no gain or loss during the year ended 31 December 2007.

(b) Included in the unlisted equity securities of the Group at an amount of HK$31.8 million (2006: HK$30.0 million) as at 31 December 2007 is an investment in a company which holds a leveraged aircraft lease. The fair value of this investment is estimated using discounted cash flow techniques. The estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at each balance sheet date.

(c) An amount of HK$4.9 million (2006: HK$7.2 million) included in the unlisted equity securities of the Group as at 31 December 2007 is carried at cost. Management considers that the fair values of these securities cannot be measured reliably as there are no quoted prices available.

21 Assets held for sale

As at 31 December 2006, a property situated in Hong Kong is presented as an asset held for sale and carried at HK$1.8 million, being the lower of its carrying amount and fair value less costs to sell, following the commitment of the Group's management to a plan to dispose of the property. No impairment loss has been recognised. As part of the disposal of DCH (Engineering) group, the assets held for sale were disposed to a wholly-owned subsidiary of CITIC Pacific.

22 Inventories

(a) Inventories in the consolidated balance sheet represent finished goods.

(b) The analysis of the amount of inventories recognised as an expense is as follows:

(HK$ million)	Group 2007	2006
Carrying amount of inventories sold	**13,114**	10,399
Write-down of inventories	**44**	38
Reversal of write-down of inventories	**(8)**	(10)
	13,150	10,427

The reversal of write-down of inventories arose due to an increase in the estimated net realisable value of certain merchandises, mainly motor vehicles, as a result of a change in consumer preferences.

23 Trade and other receivables

(HK$ million)	Group 2007	Group 2006	Company 2007	Company 2006
Trade debtors and bills receivable	**1,565**	1,281	**–**	–
Other receivables, deposits and prepayments	**1,037**	855	**1**	–
Amounts due from subsidiaries (note (d))	**–**	–	**1,739**	2,195
Amounts due from fellow subsidiaries (note (e))	**25**	243	**–**	–
Amounts due from associates (note (f))	**90**	90	**–**	–
Amounts due from jointly controlled entities (note (g))	**138**	134	**–**	–
Derivative financial instruments	**16**	6	**–**	–
	2,871	2,609	**1,740**	2,195

The amount of the Group's trade and other receivables expected to be recovered after more than one year is HK$16.6 million (2006: HK$20.1 million). The remaining balances of trade and other receivables (including amounts due from group companies, associates and jointly controlled entities) are expected to be recovered within one year.

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for doubtful debts) with the following ageing analysis (based on dates of invoices) as of the balance sheet date:

(HK$ million)	Group 2007	Group 2006
Within 3 months	**1,489**	1,203
More than 3 months but less than 1 year	**57**	71
1 year to 3 years	**19**	7
	1,565	1,281

The Group grants credit period to its customers of the major business segments as follows:

Business	**Credit term in general**
Motor	Cash on delivery to 90 days
Food and consumer products	15 to 90 days
Logistics	30 to 60 days

23 Trade and other receivables *(continued)*

(b) Impairment of trade debtors and bills receivable

The movements in the provision for impairment of doubtful debts during the year are as follows:

	Group	
(HK$ million)	**2007**	2006
At 1 January	**35**	31
Exchange adjustments	**1**	–
Uncollectable amounts written off	**(3)**	(11)
Disposal of subsidiaries	**(8)**	–
Impairment losses (reversed)/provided	**(2)**	15
At 31 December	**23**	35

At 31 December 2007, the Group's trade debtors and bills receivable of HK$9.5 million (2006: HK$17.4 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for impairment of doubtful debts of HK$9.3 million (2006: HK$17.4 million) was recognised. The Group does not held any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired

Included in the Group's trade debtors and bills receivable are balances with a carrying amount of HK$161.5 million (2006: HK$334.6 million) as at 31 December 2007 which are past due as at the balance sheet date but not impaired. These relate to a number of individual customers for whom there is no recent history of default. The ageing analysis of these trade debtors and bills receivable as of the balance sheet date is as follows:

	Group	
(HK$ million)	**2007**	2006
Overdue for 1 to 3 months	**150**	272
Overdue for more than 3 months but less than 1 year	**8**	56
Overdue for 1 year to 3 years	**4**	7
	162	335

(d) The amounts due from subsidiaries are unsecured, interest-free and recoverable on demand.

(e) The amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand, except for an amount of HK$242.2 million as at 31 December 2006 which is interest bearing at a fixed interest rate of 1.08% per annum.

(f) The amounts due from associates are unsecured, interest-free and recoverable on demand, except for an amount of HK$12.4 million as at 31 December 2006 which is interest bearing at a fixed interest rate of 5.55% per annum.

(g) The amounts due from jointly controlled entities are unsecured, interest-free and recoverable on demand, except for an amount of HK$0.5 million (2006: HK$64.8 million) which is interest bearing at a fixed interest rate of 6.12% (2006: 4.97%) per annum.

24 Construction contracts

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from/to customers for contract work as at 31 December 2006 was HK$829.4 million.

The gross amount due from customers for contract work as at 31 December 2006 that was expected to be recovered after more than one year is HK$6.2 million. The gross amount due to customers for contract work as at 31 December 2006 that was expected to be settled after more than one year was HK$9.3 million.

In respect of construction contracts in progress at the balance sheet date, the amount of retentions receivable from customers, recorded within "Trade and other receivables" as at 31 December 2006 was HK$0.6 million.

25 Cash and cash equivalents

	Group		**Company**	
(HK$ million)	**2007**	2006	**2007**	2006
Deposits with banks	**878**	16	**855**	–
Cash at bank and on hand	**775**	726	**1**	–
Cash and bank deposits	**1,653**	742	**856**	–
Bank overdrafts (note 26(b))	**(28)**	(45)	**–**	–
Cash and cash equivalents	**1,625**	697	**856**	–

Included in cash and cash equivalents of the Group totalling HK$424.5 million (2006: HK$424.2 million) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the Mainland China is subject to exchange restrictions imposed by the Mainland China government.

26 Bank loans and overdrafts

(a) At 31 December 2007, the bank loans and overdrafts were repayable as follows:

	Group		**Company**	
(HK$ million)	**2007**	2006	**2007**	2006
Within 1 year or on demand	**1,395**	856	**50**	–
After 1 year but within 2 years	**277**	4	**275**	–
After 2 years but within 5 years	**275**	3	**275**	–
	552	7	**550**	–
	1,947	863	**600**	–

26 Bank loans and overdrafts *(continued)*

(b) At 31 December 2007, the bank loans and overdrafts were secured as follows:

	Group		Company	
(HK$ million)	**2007**	2006	**2007**	2006
Bank overdrafts (note 25)				
– secured	**6**	–	**–**	–
– unsecured	**22**	45	**–**	–
	28	45	**–**	–
Bank loans				
– secured	**324**	180	**–**	–
– unsecured	**1,595**	638	**600**	–
	1,919	818	**600**	–
	1,947	863	**600**	–

(c) As at 31 December 2007, certain of the Group's assets were pledged to secure loans and banking facilities granted to certain subsidiaries as follows:

(HK$ million)	**2007**	2006
Trade receivables	**237**	124
Inventories	**79**	70
Property, plant and equipment	**11**	–
	327	194

The Company's and certain subsidiaries' unsecured bank loans are subject to the fulfilment of covenants relating to the Group's and certain subsidiaries' balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2007, none of the covenants relating to drawn down facilities had been breached (2006: HK$Nil).

27 Trade and other payables

	Group		Company	
(HK$ million)	**2007**	2006	**2007**	2006
Trade creditors	**767**	597	**–**	–
Bills payable	**211**	200	**–**	–
Other payables and accrued charges	**1,099**	796	**12**	–
Provision for warranties (note 28)	**105**	42	**–**	–
Amount due to ultimate holding company (note (b))	**1**	553	**–**	420
Amounts due to subsidiaries (note (c))	**–**	–	**231**	140
Amounts due to fellow subsidiaries (note (d))	**1**	20	**–**	–
Amounts due to jointly controlled entities (note (e))	**4**	5	**–**	–
Derivative financial instruments	**4**	3	**–**	–
	2,192	2,216	**243**	560

27 Trade and other payables *(continued)*

Apart from certain trade and other payables of HK$20.3 million (2006: HK$28.0 million) of the Group as at 31 December 2007, all the amounts of trade and other payables are expected to be settled or recognised as income within one year or are payable on demand.

(a) Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	Group	
(HK$ million)	**2007**	2006
Current or within 1 month	**952**	752
1 to 3 months	**15**	24
3 to 6 months	**6**	7
6 months to 3 years	**5**	14
	978	797

(b) The amount due to ultimate holding company of the Group and the Company is unsecured, non-interest bearing and repayable on demand, except for an amount due to ultimate holding company of the Group and the Company of HK$98.7 million as at 31 December 2006 which is interest bearing.

(c) The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

(d) The amounts due to fellow subsidiaries are unsecured, non-interest bearing and repayable on demand, except for an amount of HK$16.6 million as at 31 December 2006 which is interest bearing at a fixed interest rate of 5.04%.

(e) The amounts due to jointly controlled entities are unsecured, non-interest bearing and repayable on demand, except for an amount of HK$0.5 million as at 31 December 2007 which is interest bearing at an interest rate of 2.0% (2006: Nil) per annum.

28 Provision for warranties

Included in trade and other payable (note 27) are provision for warranties as follows:

	Group	
(HK$ million)	**2007**	2006
At 1 January	**42**	44
Exchange adjustments	**1**	–
Additional provisions made	**104**	25
Provisions utilised	**(42)**	(27)
At 31 December	**105**	42

Under the terms of certain of the Group's sales agreements, the Group will rectify product defects in accordance with the agreements within a period of time not more than three years. Provision is therefore made based on the directors' best estimate of the expected settlement under these agreements in respect of sales made prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and provision is only made where a warranty claim is probable.

29 Employee retirement benefits

For the employees in Hong Kong, the Group participates in the CITIC Group Mandatory Provident Fund Scheme ("MPF Scheme") in accordance with the arrangements prescribed by the Mandatory Provident Fund Scheme Ordinance.

Employees and the Group contribute to the MPF Scheme at the following rates:

(i) for employees who joined the Group since May 2003, 5% of the relevant employee's monthly income (up to a maximum contribution of HK$1,000 by the Group) on a monthly basis to the fund; and

(ii) for employees who joined the Group before May 2003, 5% or 10% of monthly basic salary, with no cap.

The later group of employees was mostly former members of the CITIC Group Retirement Plan ("ORSO Plan"). This ORSO Plan has been replaced by the above MPF Scheme since August 2003. The ORSO Plan is now a closed fund and will be dissolved by 1 August 2008 when accrued benefits of the members have to be transferred to the MPF Scheme on or before 1 August 2008. All new contributions are made to the MPF Scheme.

Retirement benefits for employees in the Mainland China and overseas are based primarily on local mandatory requirements.

Assets of the ORSO Plan and the MPF Scheme are held separately in funds under the custody of the respective trustees.

Employees of the Group's subsidiaries in the Mainland China are required to participate in defined contribution retirement benefit schemes administered and operated by the respective local municipal governments. The Group's subsidiaries in the Mainland China are required to make contributions to the scheme at 10% to 22% for the years ended 31 December 2006 and 2007 to fund the retirement benefits of the employees.

In accordance with the laws of Macao, the Group also makes mandatory contributions to the Social Security Fund in respect of each employee in Macao.

In Singapore, the Group is required to pay in respect of each relevant employee a monthly contribution to the Singapore Central Provident Fund at the required rate in accordance with the laws of Singapore.

In Japan, the Group is subject to the Employees' Pension Insurance Law and is required to make mandatory contribution to the National Pension in respect of each employee in Japan.

In Canada, the Group has also made contribution to the Canada Pension Plan in respect of each employee in Canada.

The Group has no other material obligations for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

30 Equity compensation benefits

(a) CITIC Pacific Share Incentive Plan 2000

CITIC Pacific adopted the CITIC Pacific Share Incentive Plan 2000 ("the Plan") on 31 May 2000 under which the board of CITIC Pacific may invite any director, executive or employee of CITIC Pacific or any of its subsidiaries to subscribe for options over CITIC Pacific's shares on payment of HK$1 per acceptance. The subscription price determined by the board of CITIC Pacific will be at least the higher of (i) the closing price of the CITIC Pacific's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the CITIC Pacific's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (iii) the nominal value of the CITIC Pacific's shares.

Since adoption of the Plan, CITIC Pacific has granted four lots of share options on 28 May 2002, 1 November 2004, 20 June 2006 and 16 October 2007 respectively. All options granted and accepted can be exercised in whole or in part within 5 years from the date of grant.

The options (granted in respect of the director's services rendered to the Group) that remained to be exercised by the directors of the Group represented less than 1% of the issued share capital of CITIC Pacific as at 31 December 2006 and 2007.

(i) The terms and conditions of the share options granted to the directors in respect of their services rendered to the Group are as follows, whereby all options are settled by physical delivery of shares:

Date of grant	Number of share options granted	Vesting conditions	Contractual life of options	Exercise price HK$
28 May 2002	400,000	Fully vested on date of grant	5 years	18.20
1 November 2004	500,000	Fully vested on date of grant	5 years	19.90
20 June 2006	500,000	Fully vested on date of grant	5 years	22.10

During the year, the following directors had exercised their share options as follows:

Date of grant	Name of directors	Number of share options exercised	Exercise price HK$	Market value per share on exercise of options HK$
28 May 2002	Hui Ying Bun	200,000	18.20	30.15
28 May 2002	Chu Hon Fai	200,000	18.20	30.15

Apart from the above mentioned, none of the options of the directors was exercised, lapsed or cancelled during the years ended 31 December 2006 and 2007.

30 Equity compensation benefits *(continued)*

(a) CITIC Pacific Share Incentive Plan 2000 *(continued)*

(ii) The number and weighted average exercise prices of share options granted to the directors of the Company in respect of their services rendered to the Group are as follows:

	2007 Weighted average exercise price HK$	**2007** Number of options	2006 Weighted average exercise price HK$	2006 Number of options
Outstanding at the beginning of the year	**20.20**	**1,400,000**	19.14	900,000
Exercised during the year	**18.20**	**(400,000)**	N/A	–
Granted during the year	**N/A**	**–**	22.10	500,000
Outstanding at the end of the year	**21.00**	**1,000,000**	20.20	1,400,000
Exercisable at the end of the year	**21.00**	**1,000,000**	20.20	1,400,000

(iii) Details of the options granted to the directors (other than non-executive directors) that remained outstanding as at each balance sheet date are as follows:

	2007 Number of options	2006 Number of options
Number of share options outstanding		
Granted on 28 May 2002 with an exercise price of HK$18.20	**–**	400,000
Granted on 1 November 2004 with an exercise price of HK$19.90	**500,000**	500,000
Granted on 20 June 2006 with an exercise price of HK$22.10	**500,000**	500,000
	1,000,000	1,400,000
Weighted average remaining contractual life	**2.65 years**	2.72 years

30 Equity compensation benefits *(continued)*

(a) CITIC Pacific Share Incentive Plan 2000 *(continued)*

(iv) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted during the year ended 31 December 2006 is measured based on the Binomial Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial Model.

	2006
Fair value of share options and assumptions	
Fair value at the date of grant	HK$3.92
Exercise price	HK$22.10
Expected volatility	25.00%
Expected average share option life	3.93 years
Expected annual dividend yield	5.00%
Risk-free interest rate per annum (based on linearly interpolated yields of the Hong Kong Exchange Fund Notes)	4.69%
Rate of eligible grantees leaving service per annum	1.00%

The expected volatility is based on the historical volatility. Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(v) Recharge from the ultimate holding company

When CITIC Pacific granted the share options to the directors of the Company during the year ended 31 December 2006, the fair values of share options received by two of the directors have been recharged to the Group and an amount of $1,960,000 has been recognised in the consolidated income statements of the year. For the share options granted to the rest of the directors, they are granted in respect of these directors' services to CITIC Pacific as a whole. Accordingly, no charge for these share options have been recognised in the financial statements of the Group.

(b) Share Option Plans of the Company

(i) Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme (the "Scheme") on 28 September 2007 to recognise the contribution of certain directors and employees of the Group to the growth of the Group and to incentivise them going forward. In consideration of HK$1 from each grantee, options to subscribe for an aggregate of 18,000,000 ordinary shares at a subscription price of HK$5.88 have been granted to 64 grantees under the Scheme on 3 October 2007, fully vested on the date of grant. Each option has a lock-up period of 6 months from the listing of the Company's shares on the Main Board of the Stock Exchange on 17 October 2007 and all options granted and accepted under the Scheme are then exercisable in whole or in part within 5 years from the date of grant. No option granted under the Scheme has been exercised during the year after granted. Fair value of the options granted under the Scheme over the subscription cost amounting to HK$27.2 million has been recognised as staff costs on the date of grant. The remaining contractual life of the options is 4.76 years.

30 Equity compensation benefits *(continued)*

(b) Share Option Plans of the Company *(continued)*

(i) Pre-IPO Share Option Scheme *(continued)*

The fair value of services received in return for share options granted is measured by references to the fair value of share options granted. The estimate of the fair value of the share options granted on 3 October 2007 is measured based on the Binomial Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial Model.

(ii) Fair value of share options

	2007
Based on the following assumptions:	
Fair value at the date of grant	**HK$1.51**
Exercise price	**HK$5.88**
Expected volatility	**33.00%**
Expected average share option life	**3.61 years**
Expected dividend yield per annum	**2.00%**
Risk-free interest rate per annum (based on linearly interpolated yield of the Hong Kong Exchange Fund Notes)	**3.94%**
Rate of eligible grantees leaving service per annum	**4.00%**
Early exercise assumption	**At least 166% of the exercise price**

The expected volatility is determined with reference to the historical movements of the comparators' share prices. Changes in the subjective input assumptions could materially affect the fair value estimate.

31 Income tax in the balance sheet

(a) Current taxation in the balance sheets represents:

	Group		Company	
(HK$ million)	**2007**	2006	**2007**	2006
Provision for Hong Kong Profits Tax for the year	**55**	45	**12**	12
Provisional Profits Tax paid	**(36)**	(27)	**(9)**	(5)
	19	18	**3**	7
Balance of Profits Tax provision relating to prior years	**–**	(1)	**–**	–
	19	17	**3**	7
Taxation outside Hong Kong	**60**	19	**–**	–
	79	36	**3**	7
Representing:				
Current tax payable	**85**	42	**3**	7
Current tax recoverable	**(6)**	(6)	**–**	–
	79	36	**3**	7

31 Income tax in the balance sheet *(continued)*

(b) Deferred tax assets and liabilities recognised:

(i) Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

(HK$ million)	Depreciation allowances in excess of related depreciation	Aircraft leasing	Revaluation of investment property	Asset revaluation reserve	Provisions	Tax losses	Undistributed profits	Others	Total
Deferred tax arising from:									
At 1 January 2006	27	22	108	1	(9)	(17)	–	(3)	129
Exchange adjustments	–	–	(1)	–	–	–	–	–	(1)
Charged/(credited) to the consolidated income statement (note 6(a))	(3)	(7)	38	–	(10)	(8)	–	3	13
At 31 December 2006	24	15	145	1	(19)	(25)	–	–	141
At 1 January 2007	24	15	145	1	(19)	(25)	–	–	141
Exchange adjustments	2	1	5	–	(1)	–	–	–	7
Effect of change in tax rate (note 6(a))	–	–	(3)	–	–	–	–	–	(3)
Charged/(credited) to the consolidated income statement (note 6(a))	(8)	(3)	33	–	(15)	–	17	–	24
At 31 December 2007	18	13	180	1	(35)	(25)	17	–	169

	2007	2006
Net deferred tax assets recognised in the consolidated balance sheet	**(27)**	(19)
Net deferred tax liabilities recognised in the consolidated balance sheet	**196**	160
	169	141

(ii) Company

The components of deferred tax liabilities of the Company recognised in the balance sheet and the movements during the year are as follows:

(HK$ million)	Revaluation of investment properties	Provisions	Total
Deferred tax arising from:			
At 1 January and 31 December 2006	9	–	9
At 1 January 2007	9	–	9
Charged/(credited) to income statement	6	(1)	5
At 31 December 2007	15	(1)	14

31 Income tax in the balance sheet *(continued)*

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of the following items:

(HK$ million)	**2007**	2006
Deductible temporary differences	**13**	11
Tax losses	**314**	428
	327	439

Tax losses in certain tax jurisdictions of HK$124.6 million (2006: HK$121.7 million) as at 31 December 2007 will expire within the next five years. The rest of the amount does not expire under the current tax legislation.

(d) Deferred tax liabilities not recognised:

At 31 December 2007, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$612.5 million (2006: HK$626.7 million). Deferred tax liabilities of HK$122.5 million (2006: HK$128.0 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

32 Capital and reserves

(a) Group

Details of the movements in capital and reserves of the Group are set on pages 78 and 79.

(b) Company

(HK$ million)	**Share capital (note 32(c))**	**Share premium**	**Retained profits**	**Total**
At 1 January 2006	210	–	1,410	1,620
Profit for the year	–	–	210	210
Dividends (note 11)	–	–	(139)	(139)
At 31 December 2006	210	–	1,481	1,691
At 1 January 2007	210	–	1,481	1,691
Capitalisation issue (note 32(c)(i))	33	–	–	33
Shares issued under the global offering (note 32(c)(ii))	27	1,031	–	1,058
Shares issuing costs	–	(55)	–	(55)
Profit for the year	–	–	95	95
Dividends (note 11)	–	–	(900)	(900)
At 31 December 2007	270	976	676	1,922

32 Capital and reserves *(continued)*

(c) Authorised and issued share capital

	2007 No. of shares (million)	2007 HK$ million	2006 No. of shares (million)	2006 HK$ million
Authorised:				
Ordinary shares of HK$0.15 (2006: HK$10) each	**4,000**	**600**	30	300
Ordinary shares, issued and fully paid:				
At 1 January	**21**	**210**	21	210
Capitalisation issue (note 32(c)(i))	**1,599**	**33**	–	–
Shares issued under the global offering (note 32(c)(ii))	**180**	**27**	–	–
At 31 December	**1,800**	**270**	21	210

(i) Pursuant to the ordinary resolutions passed on 28 September 2007:

– 2 shares of HK$10 each were allotted and issued to a wholly-owned subsidiary of CITIC Pacific;

– each of the issued and unissued shares of HK$10 each in the share capital of the Company was consolidated into shares of HK$30 each ("Consolidated Shares"), resulting in the issued share capital of the Company being divided into 7,010,613 Consolidated Shares;

– each of the issued and unissued Consolidated Shares was then divided into 200 shares of HK$0.15 each, resulting in the issued share capital of the Company being divided into 1,402,122,600 shares of HK$0.15 each;

– the authorised share capital of the Company was increased from HK$300 million to HK$600 million by the creation of 2,000,000,000 new ordinary shares of HK$0.15 each; and

– 217,877,400 new ordinary shares of HK$0.15 each were allotted and issued as fully paid to wholly owned subsidiaries of CITIC Pacific.

The allotment and issue of shares of the Company mentioned above is referred to as "Capitalisation issue".

(ii) On 17 October 2007, an aggregate of 180,000,000 ordinary shares of HK$0.15 each were issued and offered for subscription at a price of HK$5.88 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The Group raised approximately HK$1,003 million net of related expenses from the share offer.

(iii) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share Premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

32 Capital and reserves *(continued)*

(d) Nature and purpose of reserves *(continued)*

(ii) General reserve

Pursuant to articles of association of certain subsidiaries of the Group incorporated in the Mainland China and Japan, these subsidiaries are required to transfer their profits after taxation to the general reserve. The amounts allocated to this reserve are determined by the respective boards of directors.

For the subsidiaries in the Mainland China concerned, in accordance with the Company Law of the People's Republic of China (revised), the general reserve fund can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the equity shareholders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(iii) Capital reserve

The capital reserve mainly represents the premium paid on acquisition of subsidiaries before 1 January 2001.

(iv) Statutory surplus reserve

Pursuant to the relevant rules and regulations in the Mainland China, those subsidiaries in the Mainland China which are domestic enterprises in the Mainland China are required to transfer no less than 10% of their profit after taxation, as determined under accounting regulations in the Mainland China, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

(v) Merger reserve

The merger reserve mainly represents the amount of consideration paid to CITIC Pacific in excess of the net book value of the subsidiaries acquired from CITIC Pacific.

(vi) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company under the Company's Pre-IPO Share Option Scheme, recognised in accordance with the accounting policy adopted for share based payments in note 1(t)(ii).

(vii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 1(x).

(viii) Asset revaluation reserve

The asset revaluation reserve comprises the change arising on the revaluation of properties held for own use, upon transfer to investment properties. The revaluation surplus is transferred from asset revaluation reserve to retained profits upon disposal of related properties.

(ix) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(h).

(x) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 1(f) and 1(m).

32 Capital and reserves *(continued)*

(e) Distributabilitiy of reserves

The aggregate amounts of distributable reserves as at 31 December 2007 of the Company is HK$676.3 million (2006: HK$1,480.7 million). After the balance sheet date, the directors proposed a final dividend of 2.13 HK cents per share (2006: Nil) amounting to HK$38.3 million (2006: Nil). This dividend has not been recognised as a liability at the balance sheet date.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with industry practices, the Group monitors its capital structure on the basis of gearing ratio. The gearing ratio is defined as net debt divided by total capital. Net debt is calculated as total bank borrowings less cash and bank deposits. Total capital is calculated as shareholders' funds (i.e. total equity attributable to equity shareholders of the Company) plus net debt.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the gearing ratio below 40%.

The gearing ratio at 31 December 2007 and 2006 was as follows:

		Group	
(HK$ million)	Note	**2007**	2006
Total bank borrowings	26	**1,947**	863
Less: cash and bank deposits	25	**(1,653)**	(742)
Net debt		**294**	121
Shareholders' funds		**4,282**	3,655
Total capital		**4,576**	3,776
Gearing ratio		**6.4%**	3.2%

The Group's committed banking facilities are subject to the fulfilment of the following major financial covenants:

Consolidated net assets	> or = HK$2,500 million
Consolidated net debt	< Consolidated net assets
Consolidated current assets	> Consolidated current liabilities

As at 31 December 2006 and 2007, the Group had complied with all of the above financial covenants.

33 Business combination – acquisitions of subsidiaries

(i) As part of the Group's plan to expand its motor business in the Mainland China, the Group has acquired the entire equity interests in the following companies engaged in automotive distribution business in the Mainland China from independent third parties on 1 January 2006 with a total consideration of HK$56.2 million:

昆明聯亞豐田汽車銷售服務有限公司	(Kunming Lianya Toyota Motors Sale and Service Limited)
湛江市駿華豐田汽車銷售服務有限公司	(Zhanjiang Junhua Toyota Motors Sale and Service Limited)
湛江市駿浩汽車有限公司	(Zhanjiang Junhao Motors Limited)
湛江市駿凱汽車技術服務有限公司	(Zhanjiang Junkai Motors Technology and Service Limited)
雲南中馳汽車銷售服務有限公司	(Yunnan Zhongchi Motors Sale and Service Limited)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

(HK$ million)	Note	**Pre-acquisition carrying amount**	**Fair value adjustment**	**Recognised values on acquisition**
Property, plant and equipment	13(a)	46	–	46
Intangible assets	15	–	14	14
Inventories		43	–	43
Trade and other receivables		50	–	50
Cash and bank deposits		44	–	44
Trade and other payables		(116)	–	(116)
Bank loans		(25)	–	(25)
Net identifiable assets and liabilities		42	14	56
Consideration paid, satisfied in cash				56
Consideration paid in prior year				(56)
				–
Cash acquired				(44)
Net cash inflow				(44)

These newly acquired subsidiaries contributed aggregate turnover of HK$933.2 million and aggregate profit of HK$18.8 million to the Group after acquisition for the year ended 31 December 2006.

33 Business combination – acquisitions of subsidiaries *(continued)*

(ii) As part of the Group's plan to expand its motor business in the Mainland China, the Group has further acquired 80% of the equity interests in the following companies engaged in automotive distribution business in the Mainland China from independent third parties on 15 September 2006 with a total consideration of HK$67.1 million:

雲南聯迪汽車服務有限公司	(Yunnan Liandi Motors Service Limited)
雲南寶泰隆汽車服務有限公司	(Yunnan Bao Tailong Motors Service Limited)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

(HK$ million)	Note	**Pre-acquisition carrying amount**	**Fair value adjustment**	**Recognised values on acquisition**
Property, plant and equipment	13(a)	30	–	30
Lease prepayments	14	20	29	49
Intangible assets	15	–	31	31
Inventories		39	–	39
Trade and other receivables		45	–	45
Cash and bank deposits		34	–	34
Trade and other payables		(96)	–	(96)
Bank loans		(48)	–	(48)
Net identifiable assets and liabilities		24	60	84
Minority interest arising from business combination				(17)
Consideration paid, satisfied in cash				67
Cash acquired				(34)
Net cash outflow				33

These newly acquired subsidiaries contributed aggregate turnover of HK$141.4 million and aggregate profit of HK$2.0 million to the Group after acquisition for the year ended 31 December 2006.

The aggregate turnover and net profit of these acquired subsidiaries as though the acquisitions had been completed at the beginning of 2006 are HK$449.9 million and HK$3.5 million respectively.

33 Business combination – acquisitions of subsidiaries *(continued)*

(iii) On 29 December 2006, the Group extended its interest in an associate, 廣州眾協汽車貿易有限公司 (Guangzhou Zhongxie Motors Trading Limited), in the Mainland China from 40% to 80% for a cash consideration of HK$0.1 million. Thereafter, the Group has accounted for the subsidiary in accordance with the accounting policy as set out in note 1(c). The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

(HK$ million)	Note	**Pre-acquisition carrying amount and recognised fair values on acquisition**
Property, plant and equipment	13(a)	5
Inventories		6
Trade and other receivables		7
Cash and bank deposits		15
Trade and other payables		(11)
Bank loans		(22)
Net identifiable assets and liabilities		–
Cash acquired		(15)
Net cash inflow		(15)

The aggregate turnover and net loss of this subsidiary as though the acquisition had been at the beginning of 2006 are HK$68.3 million and HK$0.6 million respectively.

33 Business combination – acquisitions of subsidiaries *(continued)*

(iv) On 30 November 2006, the Group extended its interest in a subsidiary, Sims Trading (Macau) Company Limited, in Macao, from 70% to 100% for a cash consideration of HK$0.2 million. The acquisition resulted in a release of minority interests of HK$0.2 million at the acquisition date.

As part of the Group's plan to expand its motor business in the Mainland China, the Group has further acquired the entity interests in the following companies engaged in automotive distribution business in the Mainland China from independent third parties:

昆明合達汽車銷售服務有限公司 (Kunming Heda Motors Sale and Service Limited)	Extend from 80% to 100% on 14 September 2007
廣州合駿汽車貿易有限公司 (Guangzhou Hejun Motors Trading Limited)	Extend from 90% to 100% on 14 September 2007
Triangle – Isuzu Motors Limited	Extend from 60% to 91% on 27 July 2007
廣州眾協汽車貿易有限公司 (Guangzhou Zhongxie Motors Trading Limited)	Extend from 80% to 100% on 14 September 2007
湛江市合榮汽車銷售服務有限公司 (Zhanjiang Herong Motors Sale and Service Co., Ltd.)	Extend from 80% to 100% on 1 October 2007
福州合創汽車貿易有限公司 (Fuzhou Hechuang Motors Trading Limited)	Extend from 80% to 100% on 1 January 2007

Total cash consideration for the acquisitions is HK$12.6 million. The acquisition resulted in a release of minority interests of HK$12.1 million at the respective acquisition date.

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets and liabilities are their estimated fair values. In determining the fair value of the intangible assets acquired, the Group applied a discount rate of 10%–15% to the expected future cash flow generated from the rights under dealership agreements with vehicle manufacturers.

34 Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices as described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and bank deposits, trade and other receivables, and derivative financial instruments entered into for hedging purposes. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and bank deposits are placed with major financial institutions. Trade receivables are presented net of the provision for impairment of bad and doubtful debts. Credit risk in respect of trade and other receivables is limited since the Group's customer base is comprised of a large number of customers and they are dispersed across different industries and geographical areas. Accordingly, the Group has no significant concentration of credit risk. In addition, credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Group does not obtain collateral from customers.

Transactions involving derivative financial instruments are with counter parties with sound credit ratings and management does not expect any significant credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheets. Except for the financial guarantees given by the Group as set out in note 36, the Group or the Company does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 36.

(b) Liquidity risk

Cash management and financing activities of all operating entities in Hong Kong are centralised at head office level to enhance controlling and efficiency.

Due to market limitations and regulatory constraints, operating entities outside Hong Kong are responsible for their own cash management and monitored by head office. Financing activities for operating entities outside Hong Kong are previewed and approved by head office through standard procedures before execution to ensure proper authorization is enforced.

Head office is to regularly monitor current condition and expected funding requirements of all operating entities and also their compliance with lending covenants. The Group aims to ensure entities to maintain sufficient reserves of cash and readily source of funding to meet its liquidity requirements in the short and longer term.

34 Financial instruments *(continued)*

(b) Liquidity risk *(continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

Group

(HK$ million)	2007 Carrying amount	2007 Total contractual undiscounted cash flow	2007 Within 1 year or on demand	2007 More than 1 year but less than 2 years	2007 More than 2 years but less than 5 years	2006 Carrying amount	2006 Total contractual undiscounted cash flow	2006 Within 1 year or on demand	2006 More than 1 year but less than 2 years	2006 More than 2 years but less than 5 years
Bank loans	**1,919**	**(1,983)**	**(1,398)**	**(287)**	**(298)**	818	(837)	(829)	(4)	(4)
Trade and other payables	**2,192**	**(2,192)**	**(2,192)**	**–**	**–**	2,216	(2,216)	(2,216)	–	–
Gross amount due to customers for contract work	**–**	**–**	**–**	**–**	**–**	11	(11)	(11)	–	–
Bank overdrafts	**28**	**(28)**	**(28)**	**–**	**–**	45	(45)	(45)	–	–
	4,139	**(4,203)**	**(3,618)**	**(287)**	**(298)**	3,090	(3,109)	(3,101)	(4)	(4)

(HK$ million)	2007 Total contractual undiscounted cash flow	2007 Within 1 year or on demand	2007 More than 1 year but less than 2 years	2007 More than 2 years but less than 5 years	2006 Total contractual undiscounted cash flow	2006 Within 1 year or on demand	2006 More than 1 year but less than 2 years	2006 More than 2 years but less than 5 years
Derivatives settled gross:								
Forward foreign exchange contracts held as cash flow hedging instruments:								
– outflow	**(882)**	**(882)**	**–**	**–**	(718)	(718)	–	–
– inflow	**892**	**892**	**–**	**–**	729	729	–	–

Company

(HK$ million)	2007 Carrying amount	2007 Total contractual undiscounted cash flow	2007 Within 1 year or on demand	2007 More than 1 year but less than 2 years	2007 More than 2 years but less than 5 years	2006 Carrying amount	2006 Total contractual undiscounted cash flow	2006 Within 1 year or on demand	2006 More than 1 year but less than 2 years	2006 More than 2 years but less than 5 years
Bank loans	**600**	**(634)**	**(51)**	**(285)**	**(298)**	–	–	–	–	–
Trade and other payables	**243**	**(243)**	**(243)**	**–**	**–**	560	(560)	(560)	–	–
	843	**(877)**	**(294)**	**(285)**	**(298)**	560	(560)	(560)	–	–

34 Financial instruments *(continued)*

(c) Interest rate risk

The Group aims to maintain a suitable mixture of fixed and floating rate borrowings in order to stabilise interest costs. Interest rate hedging ratio is determined after taking into consideration of the market trend, the Group's cash flow pattern, etc. Interest rate swap, forward rate agreement, interest rate option and other instruments may be employed to hedge exposures or to modify the interest rate characteristics of its borrowings if necessary.

As at 31 December 2007, no derivative instruments are used as fair value or cash flow hedges on borrowings.

The following table details the interest rate profile of the Group's and the Company's borrowings at the balance sheet date.

	Group				Company			
	2007		2006		**2007**		2006	
(HK$ million)	**Effective interest rate %**		Effective interest rate %		**Effective interest rate %**		Effective interest rate %	
Fixed rate borrowings:								
Bank loans	**5.92**	**786**	4.67	719	**–**	**–**	–	–
Amount due to ultimate holding company	**–**	**–**	5.18	99	**–**	**–**	–	–
Amount due to a fellow subsidiary	**–**	**–**	5.04	17	**–**	**–**	–	–
Bank overdraft	**4.25**	**1**	–	–	**–**	**–**	–	–
		787		835		**–**		–
Variable rate borrowings:								
Bank overdrafts	**6.05**	**27**	3.78	45	**–**	**–**	–	–
Bank loans	**4.54**	**1,133**	5.93	99	**4.80**	**600**	–	–
		1,160		144		**600**		–
Total borrowings		**1,947**		979		**600**		–
Fixed rate borrowings as a percentage of total borrowings		**40.4%**		85.3%		**0%**		N/A

Sensitivity analysis

As at 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately HK$1.2 million (2006: HK$0.1 million). Other components of consolidated equity would not be affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

34 Financial instruments *(continued)*

(d) Currency risks

For bank borrowings, functional currency of each operating entity is generally matched with its liabilities. Given this, management does not expect any significant foreign currency risk associated with the Group's borrowings.

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The foreign currency exposure is kept to an acceptable level by entering into foreign currency forward contracts and they are usually matched with anticipated future cash flows in foreign currencies, primarily from purchases. As at 31 December 2007, the Group had forward exchange contracts hedging forecast transactions with a net fair value of HK$12 million recognised as derivative financial instruments.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related.

Group			**2007**			
(in million)	**United States dollars**	**Renminbi**	**Euros**	**Japanese Yen**	**British Sterling**	**Hong Kong dollars**
Trade and other receivables	**32**	**12**	**2**	**1,619**	**2**	**8**
Cash and bank deposits	**8**	**–**	**1**	**486**	**–**	**15**
Bank loan and overdrafts	**(1)**	**–**	**–**	**–**	**–**	**–**
Trade and other payables	**(9)**	**(10)**	**(2)**	**(198)**	**(1)**	**–**
Net exposure arising from recognised assets and liabilities	**30**	**2**	**1**	**1,907**	**1**	**23**
Highly probable forecast purchases	**(17)**	**–**	**(1)**	**(8,192)**	**(41)**	**–**
Notional amounts of forward exchange contracts held as cash flow hedging instruments	**17**	**–**	**1**	**5,014**	**26**	**–**
Net exposure arising from forecast transactions	**–**	**–**	**–**	**(3,178)**	**(15)**	**–**
Overall net exposure	**30**	**2**	**1**	**(1,271)**	**(14)**	**23**

Group			2006			
(in million)	United States dollars	Renminbi	Euros	Japanese Yen	British Sterling	Hong Kong dollars
Trade and other receivables	17	112	–	592	–	6
Cash and bank deposits	7	4	3	693	2	9
Bank loan and overdrafts	(1)	–	–	–	–	–
Trade and other payables	(13)	(124)	(3)	(197)	–	(2)
Net exposure arising from recognised assets and liabilities	10	(8)	–	1,088	2	13
Highly probable forecast purchases	(47)	–	(4)	(4,864)	(11)	–
Notional amounts of forward exchange contracts held as cash flow hedging instruments	47	–	2	3,981	4	–
Net exposure arising from forecast transactions	–	–	(2)	(883)	(7)	–
Overall net exposure	10	(8)	(2)	205	(5)	13

34 Financial instruments *(continued)*

(d) Currency risks *(continued)*

Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained earnings in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

Group	**2007**		2006	
(HK$ million)	**Increase in foreign exchange rates**	**Effect on profit after tax and retained profits**	Increase in foreign exchange rates	Effect on profit after tax and retained profits
British Sterling	**5%**	**(11)**	5%	(4)
Japanese yen	**5%**	**(4)**	5%	1
Renminbi	**5%**	**–**	5%	–
Euro	**5%**	**1**	5%	(1)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except for the amounts due from/to subsidiaries, fellow subsidiaries, ultimate holding company, associates and jointly controlled entities which have no fixed repayment terms. Given these terms, it is not meaningful to disclose the fair value of such balances.

The fair value of listed securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The fair value of interest-bearing bank borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

35 Commitments

(a) Capital commitments

Capital commitments in respect of plant, property and equipment outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	Group	
(HK$ million)	**2007**	2006
Contracted for	**13**	12
Authorised but not contracted for	**232**	–
	245	12

(b) Operating lease commitments

At 31 December 2007, the Group had total future minimum lease payments of properties under non-cancellable operating leases payable as follows:

	Group	
(HK$ million)	**2007**	2006
Within 1 year	**194**	204
After 1 year but within 5 years	**154**	218
After 5 years	**107**	98
	455	520

The Group is the lessee in respect of a number of properties and items of plant and equipment held under operating leases. The leases typically run for an initial period of one to twenty years, with an option to renew the leases when all the terms are renegotiated. None of the leases includes contingent rentals.

36 Contingent liabilities

At 31 December 2007, the Group and the Company have issued the following guarantees to banks in respect of banking facilities granted to and utilised by the following parties:

(a) Group

	2007		2006	
(HK$ million)	**Granted**	**Utilised**	Granted	Utilised
Associate	**51**	**45**	70	70

(b) Company

	2007		2006	
(HK$ million)	**Granted**	**Utilised**	Granted	Utilised
Subsidiaries	**2,043**	**500**	1,860	500

36 Contingent liabilities *(continued)*

(b) Company *(continued)*

At the balance sheet date, the Company is one of the entities covered by a cross guarantee arrangement issued by the Company and its subsidiaries to banks in respect of banking facilities granted to the Group which remains in force so long as the Group has drawn down under the banking facilities. Under the guarantee, the Company and all the subsidiaries that are a party to the guarantee are jointly and severally liable for all and any of the borrowings of each of them from the bank which is the beneficiary of the guarantee.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the amounts utilised as disclosed above.

37 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group and the Company had the following material related party transactions during the year.

(HK$ million)	Note	**2007**	2006
(a) Recurring transactions			
Transactions with associates			
Sales	(ii)	**168**	148
Purchases	(ii)	**31**	20
Transactions with jointly controlled entities			
Sales	(ii)	**19**	1
Transactions with fellow subsidiaries			
Rental expenses	(ii), (viii(1))	**97**	98
Transaction with affiliates			
Service income	(ii), (viii(2))	**55**	54

Affiliates represent associates and jointly controlled entities of the ultimate holding company.

(HK$ million)	Note	**2007**	2006
(b) Non-recurring transactions			
Transactions with ultimate holding company			
Service charges	(ii)	**–**	25
Management fee paid	(iii)	**34**	48
Transaction with an associate			
Commission income	(ii)	**5**	24
Transactions with fellow subsidiaries			
Consideration paid for acquisition of a loan	(iv)	**13**	–
Assignment of loans and current account	(v)	**45**	–
Consideration received for assignment of loan	(vi)	**24**	–

37 Material related party transactions *(continued)*

Notes:

(i) Remuneration for key management personnel is the amounts paid to the Company's directors as disclosed in note 7. Total remuneration is included in "staff costs" (see note 5(b)).

(ii) The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

(iii) Management fee was paid/payable to the ultimate holding company in respect of various business arrangements (including one-off business projects, strategical and consulting management services) between the Group and the ultimate holding company during the years ended 31 December 2006 and 2007. The management fee was determined based on arm's length principles with reference to the actual time and expenses incurred by the ultimate holding company in the provision of these management services.

(iv) There was a deed of assignment dated 29 June 2007 whereby a wholly-owned subsidiary of CITIC Pacific assigned to the Group a loan in the amount of HK$80.5 million owned by a company (then became a wholly-owned subsidiary of the Group) for a consideration of HK$12.6 million.

(v) The Group entered into two deeds of assignment dated 29 June 2007 with CITIC Pacific in respect of the assignment of two loans in the amount of HK$32.4 million and HK$12.2 million owed by DCH (Engineering) group at considerations of HK$32.4 million and HK$12.2 million respectively.

(vi) The Group entered into an agreement of assignment of loan dated 7 September 2007 with subsidiaries of CITIC Pacific in respect of (a) the assignment of a loan owed by an associate disposed of during the year ended 31 December 2007 in the amount of US$0.6 million (equivalent to HK$4.7 million) to a subsidiary of CITIC Pacific at a consideration of US$0.6 million (equivalent to HK$4.7 million); and (b) the assignment of a loan owed by the aforesaid associate in the amount of RMB58.7 million to another subsidiary of CITIC Pacific at a consideration of RMB18.2 million (equivalent to HK$19.5 million).

(vii) Before the listing of the Company in 2007, the Group disposed of available-for-sale equity securities in Hong Kong to two wholly-owned subsidiaries of CITIC Pacific at original cost of HK$0.1 million. The fair value of these securities as at the date of disposal was HK$257.8 million. The disposal resulted in no gain or loss during the year ended 31 December 2007.

(viii) Apart from the following items, all the material related party transactions for 2007 disclosed above did not constitute connected transactions for the Company:

(1) Rental expenses amounting to HK$97.5 million paid to fellow subsidiaries being wholly owned subsidiaries of CITIC Pacific constituted non-exempt continuing connected transactions for the Company. Such rental arrangements were disclosed in the Company's prospectus and in the annual report under the section headed "Connected Transactions". The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(2) Service income amounting to HK$55.2 million received from affiliates included provision of ground support equipment ("GSE") maintenance service to Hong Kong Airport Services Ltd (HK$20.6 million) and Cathay Pacific Airways Limited (HK$21.3 million) which constituted non-exempt continuing connected transactions for the Company. Such transactions were disclosed in the Company's prospectus and in the annual report under the section headed "Connected Transactions". The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. The balance of HK$13.3 million related to provision of GSE maintenance, unit load device ("ULD") maintenance, vehicle maintenance, motor leasing, leasing of ULD pallets to various affiliates which constituted connected persons of the Company but such transactions were exempted from the disclosure requirement under di-minimus rule.

38 Ultimate holding company

At 31 December 2007, the directors consider the ultimate holding company of the Group to be CITIC Pacific Limited, which is incorporated in Hong Kong.

39 Post balance sheet event

On 27 February 2008, the Financial Secretary of the Government of the Hong Kong Special Administrative Region announced the 2008-09 Budget which proposes the corporation profits tax rate will be lowered from 17.5% to 16.5% with effect from the year of assessment 2008-09 and a one-off reduction of 75% of the final tax for the year of assessment 2007-08, subject to a ceiling of HK$25,000. In accordance with the Group's accounting policy set out in note 1(u), no adjustments have been made to these financial statements as a results of this announcement.

These proposed tax relief measures will result in the opening balances of the Group and the Company as at 1 January 2008 being remeasured as follows:

(a) current tax payable of the Group will decrease by HK$0.6 million;

(b) the Group's deferred tax assets and deferred tax liabilities will decrease by HK$1.0 million and HK$3.3 milliion respectively; and

(c) the Company's deferred tax liabilities will decrease by HK$0.8 million.

These opening balance adjustments to current and deferred tax balance as at 1 January 2008 will be recognised as a reduction in the Group's and the Company's income tax expense of HK$2.9 million and HK$0.8 million respectively.

40 Accounting estimates and judgements

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) *Provisions for warranties*

As explained in note 28, the Group makes provisions under the warranties it gives on sale of products taking into account the Group's recent claim experience. As the manufacturers are continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that the Group will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(b) *Valuation of investment property*

As described in note 13, the investment properties were revalued by independent professional valuers on a market value basis at each balance sheet date. Such valuations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Any increase or decrease in the valuations would affect the Group's results in future years.

(c) *Income taxes*

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination are uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Recognition of deferred tax assets, which principally related to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

40 Accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

(d) *Impairment of assets*

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provides for impairment loss. Any change in the assumptions adopted in the profit forecasts would increase or decrease in the provision of impairment loss and affect the Group's net asset value.

Impairment loss for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment loss would affect the net profit in future years.

(e) *Provision for inventories*

The Group reviews the carrying amounts of the inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with accounting policy set out in note 1(n). Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

(f) *Depreciation*

Property, plant and equipment, other than investment property, are depreciated on a straight line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

41 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for periods beginning on or after
HK(IFRIC) 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) 12	Services concession arrangements	1 January 2008
HK(IFRIC) 13	Customer loyalty programmes	1 July 2008
HKFRS 8	Operating segments	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009

42 Comparative figures

In order to comply with AG 5 as noted in note 1(ad), the comparative amounts in the financial statements are presented as if Yee Lim had been combined at the previous balance sheet date. As a result of the adoption of AG 5, the Group's profit attributable to shareholders for the year ended 31 December 2006 has been increased by HK$2 million. There is no impact on the Group's net assets as at 31 December 2006.

43 Details of principal subsidiaries

The following are the principal subsidiaries of the Group which in the opinion of the directors, principally affect the results and net assets of the Group. To give details of other subsidiaries would in the opinion of the directors result in particulars of excessive length.

Name of company	Note	Place of incorporation/ establishment and operation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interests held by the Company %	Proportion of ownership interests held by a subsidiary %	Principal activities
Broadview Investments Holdings Ltd.		British Virgin Islands	Authorised share capital of US$50,000 at US$1 each and issued share capital of US$1 at US$1 each	100	–	Investment holding
Consolidated Parts & Accessories Sales Centre Limited		Hong Kong	Authorised and issued share capital of HK$100,000 at HK$100 each	–	100	Trading of motor vehicle spare parts
Dah Chong Hong – Dragonair Airport GSE Service Limited		Hong Kong	Authorised and issued share capital of HK$10,000 at HK$1 each	–	70	Provision of airport ground support equipment maintenance services
Dah Chong Hong (Japan) Limited		Japan	Authorised share capital of JPY1,280 million at JPY 1,000 each and issued share capital of JPY480 million at JPY1,000 each	–	100	Importer and exporter of foodstuffs, motor vehicles and garments, property investment and investment holding
Dah Chong Hong (Motor Leasing) Limited		Hong Kong	Authorised and issued share capital of HK$100,000 at HK$10 each	–	100	Motor leasing
Dah Chong Hong (Motor Service Centre) Limited		Hong Kong	Authorised and issued share capital of HK$200,000 at HK$100 each	–	100	Motor vehicle repairing servicing and parts trading
Dah Chong Hong, Limited		Hong Kong	Authorised and issued share capital of HK$50,000,000 at HK$1,000 each	100	–	Investment holding, general importers, retailers and exporters dealing in foodstuffs, electrical appliances and other products
Dah Chong Hong (China) Limited		Hong Kong	Authorised and issued share capital of HK$100,000 at HK$100 each	100	–	Investment holding and provision of management services
Dah Chong Hong Macau Food Supply Company Limited		Macao	Registered and paid-in capital of MOP100,000	–	55	Wholesaler of frozen food
Dah Chong Hong Macau Logistics Warehouse Company Limited		Macao	Registered and paid-in capital of MOP100,000	–	55	Provision of logistics and warehouse services

43 Details of principal subsidiaries *(continued)*

Name of company	Note	Place of incorporation/ establishment and operation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interests held by the Company %	Proportion of ownership interests held by a subsidiary %	Principal activities
Dah Chong Hong Motors (China) Limited		Hong Kong	Authorised and issued share capital of HK$2,000,000 at HK$100 each	–	100	Investment holding
Dah Chong Hong Trading (Singapore) Pte. Ltd.		Republic of Singapore	Authorised and issued share capital of SGD3,500,000 at SGD1 each	–	100	Investment holding and trading of foodstuffs
DCH Food Industries Limited		Hong Kong	Authorised share capital of HK$1,000,000 at HK$10 each and issued share capital of HK$20 at HK$10 each	–	100	Investment holding
DCH Insurance Company Limited		Bermuda	Authorised and issued share capital of HK$936,000 at HK$1 each	100	–	Insurance business
DCH Logistics Company Limited		Hong Kong	Authorised and issued share capital of HK$100,000 at HK$10 each	–	100	Warehouse and transportation service
DCH Motors (Bentley) Limited		Hong Kong	Authorised share capital of HK$10,000 at HK$1 each and issued share capital of HK$2 at HK$1 each	–	100	Motor vehicle distributor
DCH Motors Ltd.		Canada	Authorised share capital of CAD100,000 at CAD1 each and issued share capital of CAD100 at CAD1 each	–	100	Motor vehicle distributor
Harmony Motors Limited		Hong Kong	Authorised and issued share capital of HK$100,000 at HK$100 each	–	100	Motor vehicle distributor
Honest Motors, Limited		Hong Kong	Authorised share capital of HK$5,000,000 at HK$1,000 each and issued share capital of HK$3,000,000 at HK$1,000 each	–	100	Motor vehicle distributor
Japan Auto Parts Company Limited		Hong Kong	Authorised and issued share capital of HK$100,000 at HK$100 each	–	100	Trading of motor vehicle spare parts
Metro Motors Limited		Hong Kong	Authorised and issued share capital of HK$3,000,000 at HK$1 each	–	100	Motor vehicle distributor
Premium Motors Limited		Hong Kong	Authorised share capital of HK$10,000 at HK$1 each and issued share capital of HK$2 at HK$1 each	–	100	Motor vehicle distributor
Regal Motors, Limited		Hong Kong	Authorised share capital of HK$500,000 at HK$100 each and issued share capital of HK$200,000 at HK$100 each	–	100	Motor vehicle distributor

43 Details of principal subsidiaries *(continued)*

Name of company	Note	Place of incorporation/ establishment and operation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interests held by the Company %	Proportion of ownership interests held by a subsidiary %	Principal activities
Reliance Motors, Limited		Hong Kong	Authorised share capital of HK$5,000,000 at HK$1,000 each and issued share capital of HK$3,000,000 at HK$1,000 each	–	100	Motor vehicle distributor
上海大昌行食品工業有限公司 (Shanghai DCH Food Industries Ltd.)	(i)	The People's Republic of China	Registered and paid-in capital of US$4,770,000	–	100	Food processing and trading
Sims (China) Limited		Hong Kong	Authorised share capital of HK$1,000 at HK$10 each and issued share capital of HK$20 at HK$10 each	–	100	Marketing co-ordination services
Sims Trading Company Limited		Hong Kong	Authorised and issued share capital of HK$300,000 at HK$100 each	–	100	Wholesale and distribution of grocery stuffs and foodstuffs
Triangle Auto Pte. Ltd.		Republic of Singapore	Authorised and issued share capital of SGD3,000,000 at SGD1 each	–	100	Motor vehicle distributor
Triangle Motors Limited		Hong Kong	Authorised share capital of HK$5,000,000 at HK$100 each and issued share capital of HK$3,000,000 at HK$100 each	–	100	Motor vehicle distributor
Triangle Motors (China) Limited		Hong Kong	Authorised share capital of HK$10,000 at HK$10 each and issued share capital of HK$20 at HK$10 each	–	100	Investment holding and trading of motor vehicles
Yee Lim Godown & Cold Storage Limited		Hong Kong	Authorised and issued share capital of HK$1,000,000 at HK$1 each	–	100	Operation of dry and cold storage godown
江門大昌慎昌食品加工倉儲有限公司 (Jiangmen Dah Chong Hong – Sims Food Processing and Warehousing Limited)	(i)	The People's Republic of China	Registered capital of US$10,000,000 and paid-in capital of US$5,000,000	–	100	Provision of food products and logistics services
江門大昌慎昌工業開發有限公司 (Jiangmen Dah Chong Hong – Sims Industrial Development Limited)	(i)	The People's Republic of China	Registered and paid-in capital of US$5,000,000	–	100	Construction and development of industrial factories and warehouses

43 Details of principal subsidiaries *(continued)*

Name of company	Note	Place of incorporation/ establishment and operation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interests held by the Company %	Proportion of ownership interests held by a subsidiary %	Principal activities
江門慎昌貿易有限公司 (Sims Trading (Jiangmen) Company Limited)	(ii), (iii)	The People's Republic of China	Registered and paid-in capital of RMB10,000,000	–	100	Wholesale of food products
江門市寶昌汽車銷售服務有限公司 (Jiangmen Baochang Motors Sale and Service Limited)	(ii), (iii)	The People's Republic of China	Registered and paid-in capital of RMB12,000,000	–	100	Motor vehicle distributor
上海賓利汽車銷售有限公司 (Bentley Shanghai Motor Sales Ltd.)	(ii), (iii)	The People's Republic of China	Registered and paid-in capital of RMB12,000,000	–	100	Motor vehicle distributor
雲南聯迪汽車服務有限公司 (Yunnan Liandi Motors Service Limited)	(ii), (iii)	The People's Republic of China	Registered and paid-in capital of RMB10,000,000	–	80	Motor vehicle distributor
雲南寶泰隆汽車服務有限公司 (Yunnan Bao Tailong Motor Service Limited)	(ii), (iii)	The People's Republic of China	Registered and paid-in capital of RMB5,000,000	–	80	Motor vehicle distributor

(i) These entities are wholly foreign owned enterprises established in the Mainland China.

(ii) The equity interest of these entities are held by Mainland China nationals and/or entities on behalf of the Group.

Historically, Mainland China rules and regulations restricted foreign ownership of companies in certain industries. The Group has been conducting its operations in these industries through Contractual Arrangements with various companies incorporated in the Mainland China (i.e. OPCOs) which are wholly-owned by Mainland China nationals and/or entities (i.e. Registered Owners).

43 Details of principal subsidiaries *(continued)*

(ii) *(continued)*

The Group does not have direct equity interests in these OPCOs. However, the Group has implemented a series of Contractual Arrangements with the Registered Owners of these OPCOs, such that:

- The Group is entitled to enjoy all the economic benefits of the OPCOs. All the dividends, capital bonus or any other assets distributed to the respective Registered Owners by the respective OPCOs are required to transfer to the Group at nil consideration within three working days after such distribution;

- The Group is granted an exclusive rights to acquire, to the extent permissible under the laws of Mainland China, equity interests in the OPCOs at nil consideration or for a nominal price; and

- The respective Registered Owners are required to consult with and follow the instructions of the Group, whenever they exercise their rights as the equity shareholders of the OPCOs.

As a result of the above Contractual Arrangements, the Group has effective control over the operational and financial policies of the OPCOs and derives economic benefits from the operations of the OPCOs. Accordingly, the financial results and positions of OPCOs have been consolidated into the Group since their respective date of establishment.

(iii) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

MAJOR PROPERTIES HELD BY THE GROUP

As at 31 December 2007

Address/Lot no.		Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
Major Properties Held For Owner-occupation					
1.	1st Floor, Front Portion, 11 Mok Cheong Street, Tokwawan, Kowloon, Hong Kong Situated within KIL No 7630	2027	100	219.99	Storage
2.	Shops Nos 1 and 2 on Ground Floor and External Wall of Ground Floor Premises, Landwide Commercial Building, 118-120 Austin Road, Tsimshatsui, Kowloon, Hong Kong 92/1,000th shares of and in KIL No 8375 and the Remaining Portion of KIL No 8832	2043	100	360.00	Motor vehicle showroom with ancillary offices
3.	Car Parking Spaces Nos 1 and 2 on Basement, Hong Yuen Court, 1–5 Tak Shing Street, Jordan, Kowloon, Hong Kong 4/2,100th shares of and in KIL No 11009	2047	100	2 car parking spaces	Car parking
4.	377 Carparking Spaces (Carparking Spaces Nos 8001 to 8125 on 8th Floor, Carparking Spaces Nos 9001 to 9125 on 9th Floor and Carparking Spaces Nos R001 to R127 on roof), Commercial and Garage Block, Richland Gardens, 80 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong 627/106,352nd shares of and in NKIL No 5928	2047	100	377 car parking spaces	Car parking

MAJOR PROPERTIES HELD BY THE GROUP

As at 31 December 2007

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
5.	Flats B, C, D, E and F on Ground Floor including the Forecourt, 152A–152D Prince Edward Road West and 222G–222H Fa Yuen Street, Mongkok, Kowloon, Hong Kong 6/64th shares of and in KIL No 7634	2033	100	210.98 and the forecourt is approximately 359.53	Motor vehicle showroom with ancillary offices
6.	Shop A-9 on Ground Floor, Kwai Chung Centre, 102 Kwai Hing Road, Kwai Chung, New Territories, Hong Kong 13/1,706th shares of and in KCTL No 294	2047	100	53.23	Food store
7.	12th Floor, Union Park Centre, 771–775 Nathan Road, Mong Kok, Kowloon, Hong Kong 493/10,000th shares of and in the Remaining Portions of KIL Nos 2570, 2571 and 2572	2080	100	272.11	Office
8.	67–73 Fuk Hi Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong Subsections 1 and 2 of Section A of Yuen Long Town Lot No. 313 and Extensions Thereto and Section O of YLTL No.313 and Extensions Thereto	2047	100	34,185.84	Food processing complex
9.	Lot T7-3, No.19, Yinhai Avenue, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	12,677.51	Food processing and warehouse

Address/Lot no.		Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
10.	Lot T7-5, No. 6, Jiangyu Road and No. 28 Yinzhou Avenue, Jiguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	4,570.18	Food processing and warehouse
10a.	Partial of above Property 10	2054	100	3,148	Office (under construction)
11.	Lot T7-6, No. 28, Yinzhou Avenue, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	8,378.09	Warehouse
12.	Lot No. T7-2, located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	34,410	Bare site covered by shrubs and grass
13.	Lot No. T10 located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	219,918	Bare site covered by shrubs and grass
14.	Lot No. T18 located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	55,346	Bare site covered by shrubs and grass

MAJOR PROPERTIES HELD BY THE GROUP

As at 31 December 2007

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
15.	4S shop, No. 522 Bailong Road, Yunshan Village, Jinma Town, Guandu District, Kunming, Yunnan Province, The People's Republic of China	2045	80	6,961.32	4S shop
16.	No. 789 Anchi Road, Shanghai International Automobile City, Jiading District, Shanghai, The People's Republic of China	2043	100	3,640.64	Showroom and cars storage
17.	No. 258 Nangang Gong Road, Huinan Town, Nanhui District, Shanghai, The People's Republic of China	2048	46.062	9,695.85	Vacant
18.	Portion of Dah Chong No. 2 Building, 18-2, Roppongi 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	1,013.01	Office
19.	Richmond Acura Auto-Dealership Premises, 4211 No 3 Road, Richmond, British Columbia, Canada Lot 18 (Except Part Subdivided by Plan 70548 and Part on Plan LMP48197) Section 32, Block 5, North Range 6 West, New Westminster District Plan 37477	Freehold	100	2,559.4 plus 213 parking stalls	Showroom, service bays, storage and office
20.	20 Tuas Avenue 2, Singapore 639451 Lot No 1349 Mukim 7	2011	100	4,840.5 plus 131.5 area for parking	Car showroom, workshop, storage and office
21.	259 Pandan Loop, Singapore 128435 Lot No 4009A (JTC Pte Lot A14379) Mukim 5	2012	100	1,137.5	Cold store

Address/Lot no.		Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
Major Properties Held For Investment					
1.	Ground Floor of 115 Hennessy Road, Hip Sang Building, 107–115 Hennessy Road, Wanchai, Hong Kong 6/45th shares of and in the Remaining Portion of IL No 3831	2028	100	68.28	Shop
2.	Ground Floor, 56 Percival Street, Causeway Bay, Hong Kong 2/96th shares of and in the Remaining Portions of Sections A and C of Marine Lot No 365 and the Remaining Portion of Sub-section 1 of Section W of IL No 29	2842	100	82.68	Shop
3.	Shop No G7 on Ground Floor and Car Parking Spaces Nos LG123 and LG124 on Lower Ground Floor, Westlands Gardens, 1025–1037 King's Road and 2–10, 12A–12H Westlands Road, Quarry Bay, Hong Kong 14/6,952nd shares of and in the Remaining Portion of Quarry Bay IL No 15	2881	100	127.28 plus 2 car parking spaces	Shop and car parking
4.	Car Parking Space No.18 on Upper Ground Floor, Kar Man Court, 1–7 Kin Wah Street, North Point, Hong Kong 1/713th share of and in the Remaining Portions of subsections 1, 2, 3 and 4 of Section X of IL No 2366 and the Extension thereto	2072	100	1 car parking space	Open car parking space

MAJOR PROPERTIES HELD BY THE GROUP

As at 31 December 2007

Address/Lot no.		Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
5.	Ground and Mezzanine Floors, 67 Sai Yeung Choi Street South, Mongkok, Kowloon, Hong Kong 3/11th shares of and in the Remaining Portion of Subsection 2 of Section C and the Remaining Portion of Section A of Subsection 3 of Section C of KIL No 1259	2060	100	114.73	Shop
6.	Ground Floor including its yard and Cockloft of 58 Sai Yeung Choi Street South and Shop 1 on Ground Floor, Cockloft and Flats A and B on 1st Floor of 60 Sai Yeung Choi Street South, Mongkok, Kowloon, Hong Kong 2/8th shares of and in the Remaining Portion of KIL No 2191 and 12/50th shares of and in KIL No 2192	2073	100	257.62	Shop
7.	Ground, 2nd, 3rd, 4th and 5th Floors, Front Portion, 11 Mok Cheong Street, Tokwawan, Kowloon, Hong Kong Situated within KIL No 7630	2102	100	772.76	Industrial
8.	Shop Nos. 1 and 2 on Ground Floor, Siu Man Court, 7, 7A and 9 Fort Street, North Point, Hong Kong 51/543rd shares of and in the Remaining Portions of Sections P and Q of IL No 2366 and the Extension thereto	2072	100	212.75	Shop

Address/Lot no.		Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
9.	Haiwang Hatchery Plant at Haiwang Village, Huinan Town, Nanhui District, Shanghai, The People's Republic of China	2048	46.062	2,052.87	Warehouse
10.	Xing Guang Farm, Xingguang Village, Zhuqiao Town, Nanhui District, Shanghai, The People's Republic of China	2048	46.062	6,041.41	Farmland
11.	Hiro-o Garden Hills, West Hill I-1204, Hiro-o 4-chome, Shibuya-ku, Tokyo, Japan	Freehold	100	88.98	Residential
12.	Hiro-o Garden Hills, Centre Hill H-1403, Hiro-o 4-chome, Shibuya-ku, Tokyo, Japan	Freehold	100	192.53	Residential
13.	Hiro-o Garden Hills, South Hill D-507 Hiro-o 4-chome, Shibuya-ku, Tokyo, Japan	Freehold	100	217.58	Residential
14.	Dah Chong No. 1 Building, 12-6, Roppongi, 3-chome, Minato-ku, Tokyo, Japan	Freehold	100	3,207.78 plus 35.96 area for parking	Commercial/ office
15.	Dah Chong No. 2 Building, 18-2, Roppongi, 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	1,404.67	Commercial/ office

MAJOR PROPERTIES HELD BY THE GROUP

As at 31 December 2007

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate saleable area (sq. m.)	Existing use
16.	Torizaka House 14-19, Roppongi, 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	683.07	Residential/ office
17.	Land No.346-22, Azateradani, Hino-Cho, Nishiwaki-shi, Hyogo Prefecture, Japan	Freehold	100	6,300	Vacant
18.	Land No.8-162 and 8-179, Ogase-Cho, Kagamihara-shi, Gifu Prefecture, Japan	Freehold	100	7,123	Vacant (Residential)
19.	Land No.689, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	509	Vacant
20.	Land No.692, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	694	Vacant

DEFINITION OF TERMS

Terms

Capital employed	Shareholders' funds plus total debt
Total debt	Short term and long term loans, plus bank overdrafts
Net debt	Total debt less cash and bank deposits
Total capital	Shareholders' funds plus net debt
EBITDA	Profit before interest expense, taxation, depreciation and amortisation

Ratios

Earnings per share $= \dfrac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares (by days) in issue for the year}}$

Shareholders' funds per share $= \dfrac{\text{Shareholders' funds}}{\text{Total issued and fully paid shares at the end of the year}}$

Leverage $= \dfrac{\text{Net debt}}{\text{Total capital}}$

Interest cover $= \dfrac{\text{EBITDA}}{\text{Interest expense}}$

CORPORATE INFORMATION

Headquarters and Registered Office
8th Floor, DCH Building,
20 Kai Cheung Road,
Kowloon Bay, Hong Kong
Telephone: 2768 3388
Fax: 2796 8838

Website
www.dch.com.hk contains a description of DCH Holdings' business, copy of the annual report to shareholders, announcements, press releases and other information.

Stock Codes
The Stock Exchange of Hong Kong: 1828
Bloomberg: 1828:HK
Reuters: 1828.HK

Share Registrars
Shareholders should contact our Registrars on matters such as transfer of shares, change of name or address, or loss of share certificates:
Tricor Investor Services Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong
Telephone: 2980 1333
Fax: 2810 8185

Investor Relations
Investors, shareholders and research analysts may contact the Investor Relations Department.
Telephone: 2768 2188
Fax: 2758 1117
Email: ir@ir.dch.com.hk

Financial Calendar

Closure of Register:	25 April 2008 to 2 May 2008
Annual General Meeting:	2 May 2008, 10:30 a.m. Island Ballroom, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Hong Kong
Final Dividend payable:	7 May 2008

Annual Report 2007
Our Annual Report is printed in English and Chinese language and is also available on our website at www.dch.com.hk under the "Investor Information" section.

Shareholders may choose to rely on the Annual Report posted on the Company's website. Shareholders may change their choice on this matter by writing to the Company's Share Registrars.

Shareholders having difficulty in gaining access to the document will promptly be sent printed copies free of charge upon request to the Company's Share Registrars.

Non-shareholders are requested to write to the Corporate Communications Department, Dah Chong Hong Holdings Limited, 8th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong, or by fax: 2562 6751 or by email: contact@dch.com.hk.

TdA – concept and design tda.com.hk Printed by Cre8 (Greater China) Limited

大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

8/F, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong
Tel: (852) 2768 3388 www.dch.com.hk