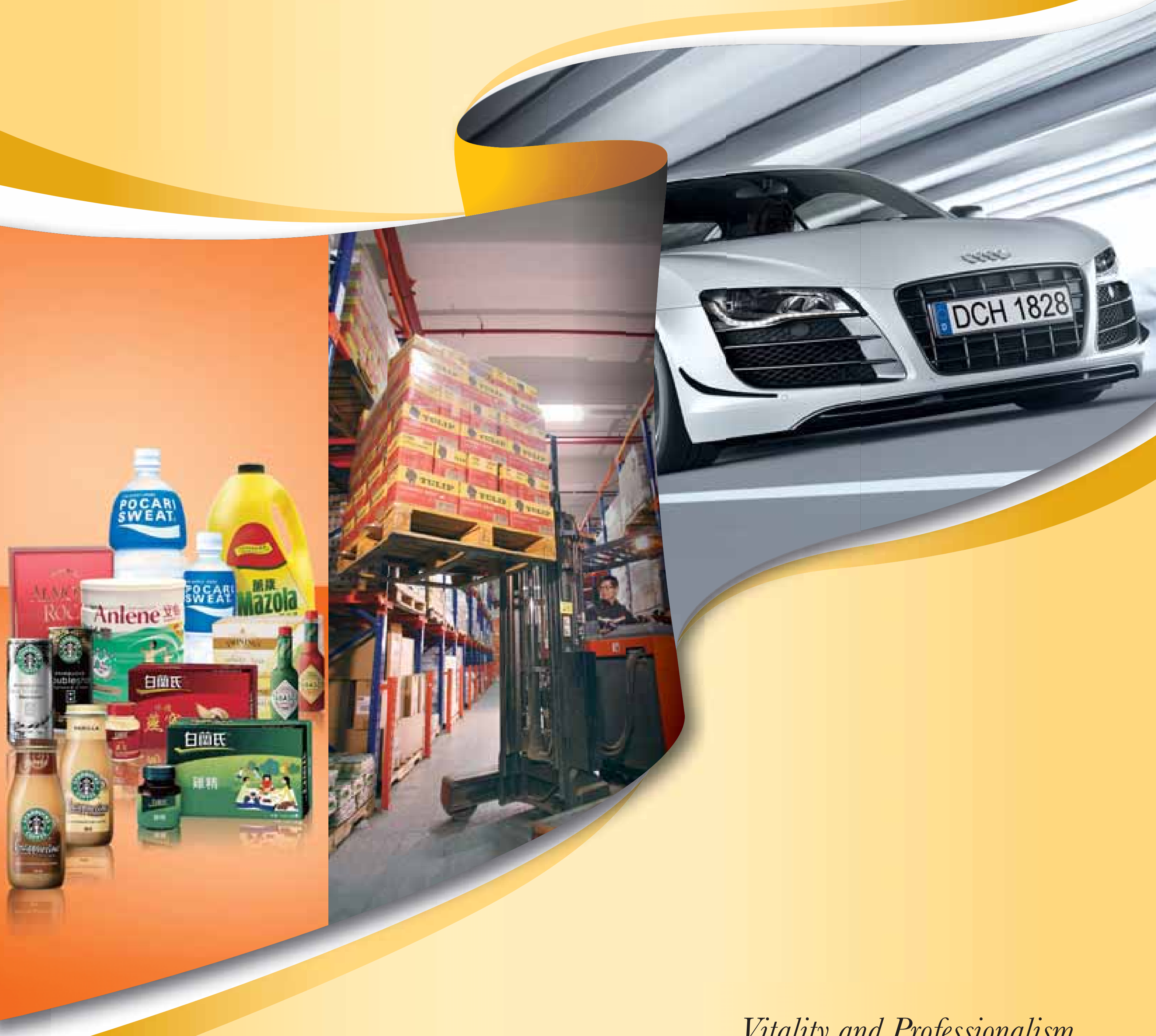
大昌行集團有限公司

DAH CHONG HONG HOLDINGS LIMITED




*Vitality and Professionalism*

# OUR CHINA MOMENTUM

Annual Report 2010

Stock Code: 01828

**DCH Holdings** is a business conglomerate with key interest in the consumer market and has gained strong foothold in mainland China, Hong Kong, Macao, Taiwan, Singapore, Japan and Canada. 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 Business, 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 established its operations in the country and will continue the focus in this global economic powerhouse with vigorous development of its core businesses in the coming years to ensure remarkable contributions to the Group.


# OUR CHINA MOMENTUM

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Motor and Motor Related Business

Food and Consumer Products Business

Logistics Business

# BUSINESS HIGHLIGHTS

## ↑45%

Growth in Turnover of the Group

### Motor and Motor Related Business

- A 45.9% increase in units of vehicles sold in mainland China
- A 93.6% and 100.8% unit sales growth of Bentley and Isuzu in the PRC respectively
- Currently 55 4S shops in the Group's dealership network after the addition of 15 shops, with 20.9% same store growth in units sold
- The first independent service outlet in Dongguan has been established
- Lubrication oil blending plant in Xinhui has started production
- A 22.4% growth in total number of vehicles sold in Hong Kong
- Introduction of electric buses and passenger cars in Hong Kong
- 25.9% of Audi's total car sales in Taiwan was sold through our dealerships in Taipei and Hsinchu

### Food and Consumer Products Business

- A 26% growth of Segment Turnover in mainland China
- A 34.2% sales growth in FMCG in the PRC
- Food processing plant with sourcing capability in Jiangxu has commenced operation
- A 100% increase in production capacity in food manufacturing after the operation of Yuen Long Food Processing Centre
- An 11.7% growth in same store sales per square foot of DCH Food Mart was recorded
- Prominent growth of electrical appliances business with larger product portfolio and extended sales network

### Logistics Business

- Cold chain in Xinhui Logistics Centre has commenced operation
- Yuen Long Logistics Centre has begun full-scale operation

# FINANCIAL HIGHLIGHTS

**↑98.7%**

**Growth in Profit Attributable to Shareholders**

| HK$ million | 2010 | 2009 |
|---|---|---|
| Turnover | **32,211** | 22,209 |
| Profit attributable to shareholders | **1,411** | 710 |
| Segment profit after taxation | | |
| Motor and Motor Related Business | **1,016** | 642 |
| Food and Consumer Products Business | **175** | 150 |
| Logistics Business | **17** | 25 |
| Other Business | **66** | 59 |

| HK$ million | 2010 | 2009 |
|---|---|---|
| Total debt | **3,302** | 2,436 |
| Cash and bank deposits | **1,991** | 1,895 |
| Net debt | **1,311** | 541 |
| Shareholders' funds | **6,804** | 5,457 |
| Total capital | **8,115** | 5,998 |
| Capital employed | **10,106** | 7,893 |

| HK cents | 2010 | 2009 |
|---|---|---|
| Basic earnings per share | **78.33** | 39.49 |
| Diluted earnings per share | **77.96** | 39.49 |
| Dividend per share | | |
| Interim | **10.68** | 4.51 |
| Final | **12.77** | 11.29 |
| Total | **23.45** | 15.80 |

# CHAIRMAN'S LETTER TO SHAREHOLDERS

*"The year 2010 witnessed new heights of achievement for Dah Chong Hong Holdings in both turnover and profit attributable to shareholders. The multi-dimensional expansion sustained a high growth of DCH on the fast track."*

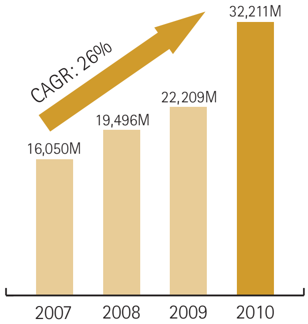
**Hui Ying Bun**
*Chairman*

## Record Year on the Fast Track – High Growth Accelerates

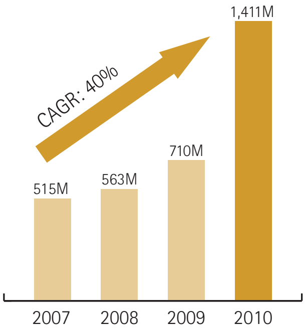
The past year marked a quantum leap in the Group's business. The solid foundation we have built in the past has propelled our performance full speed ahead.

For the year ended 31 December 2010, the Group recorded a total turnover of HK$32,211 million, a surge of 45.0% against the previous year (2009: HK$22,209 million). Profit attributable to shareholders grew by 98.7% to HK$1,411 million, compared to HK$710 million in 2009. These results testify our growth momentum, with turnover and profit attributable to shareholders at a compound annual growth rate ("CAGR") of 26% and 40% respectively since our IPO in 2007. This expansion is expected to continue as the Group extends its consumer goods business portfolio across a wider spectrum.

**Group Turnover (HK$)**




**Profit Attributable to Shareholders (HK$)**




Basic earnings per share were 78.33 HK cents for the year (2009: 39.49 HK cents). The Board of Directors has proposed the payment of a final dividend of 12.77 HK cents per share, which combined with an interim dividend of 10.68 HK cents per share previously paid, gives a full year dividend of 23.45 HK cents per share.

## Leaping Forward

Riding on the achievements in the past few years, I am committed to leading DCH to become a major player in the Greater China consumer market and generate better return to our shareholders through the following expansion strategies.

## China Momentum Boosts Us to a Higher Level

Our China business has played a pivotal role in contributing to the rising turnover and profit of the Group in 2010 and it will continue to be our focus in 2011. We anticipate a continued substantial growth of GDP and per capita income in mainland China, which fuels the booming domestic consumer market and offers ample room to sustain our vigorous development.

In 2011, double-digit growth in mainland China's automotive market is expected to continue within the impressive economic environment despite austerity measures aimed at controlling the rapid growth of vehicle population in Beijing. Induced by the growing concern of food safety and the pursuit of better living standards, quality imported food and luxury products will become more desirable. Demand for mid-to-high-end products will be boosted.


These trends offer us an unimaginably immense potential in mainland China market and we shall capitalise on our well-established business network in mainland China to grasp these opportunities to achieve significant growth.

## Eye on the Booming Consumer Market in the Global Economic Powerhouse

Through decades of dedicated hard work, we have built a solid, well-managed foundation in the consumer market focusing on the motor and food segments, with experienced professionals and seasoned management in both businesses, which have been consistently delivering good returns to our shareholders. With a diversified portfolio, DCH has maintained a steady income and growth over the years.

In order to fully exploit the business potential of the PRC market, we are striving to create value through horizontal and vertical expansion across the entire supply chain.

In the Motor Business, we have established a strong distribution network for Bentley and Isuzu whilst aggressively expanding the dealership network of 4S shops covering the densely populated and economically advanced eastern and southern regions of mainland China. At the same time, we have set up several motor related businesses, including motor leasing in five cities, an independent service outlet in Guangdong Province, a used car and vehicle inspection centre in Guangzhou, and a lubrication oil blending plant in Xinhui, Guangdong.

In the Food and Consumer Products Business, we have achieved excellent growth in the distribution of Fast Moving Consumer Goods ("FMCG") in mainland China and Hong Kong. In addition, we have set up food processing facilities with sourcing capabilities in eastern China and will expand into other cities. Through synergies with our Logistics Business, we have also established firm collaborative partnerships with our principals by providing high quality value-added logistics and packing services. This vertical and horizontal strategic expansion is delivering a wider spectrum to the business portfolio of the Group, allowing ample room for growth.

In addition, we have been creating a portfolio of premium audio equipment, ranging from very distinctive amplifiers and loudspeakers to fashion earphones. This new product segment is developed to satisfy the growing demand of the mid-to-high income group in mainland China. I believe that this approach will create good value for the Group.

## Focusing on High Growth and Enhanced Margin

In order to generate higher return and secure a stable income for our shareholders, we have been focusing on mid-to-high-end markets that are less vulnerable to the swings of the economic cycle. Besides, we are aiming at enhancing our growth and margins by providing unparalleled services to this customer base.

Quality service, the core value of DCH, has been and will continue to be our competitive edge in mainland China where more customers are demanding better products and a higher level of service. In our Motor Business, we have been striving to improve our service both in pre-sales and after-sales activities. I am proud to report that in the past year, we have won several awards by our principals and lots of compliments from our customers. This recognition has enhanced the brand value of DCH and generated positive returns to our shareholders. In the Food Business, our high quality of service has also helped expand our customer base and, more importantly, acquire new agencies among leading FMCG vendors.

## Stepping Up Expansion in the Emerging Second- and Third-Tier Cities

Greater China remains as our primary market and with our strong representation in the eastern and southern regions, where economic growth and purchasing power are picking up rapidly. By adopting this development strategy, the Group is generating better margins and outpacing the overall market in terms of revenue and sales volume. While strengthening our presence in these areas to enjoy the growth potential of the market, we will continue to pursue opportunities in other regions.

## Sustaining the Growth Momentum with Passionate Professionals

The success of DCH is attributable to our team of experienced and dedicated people. To sustain the growth momentum of the Group, we are strengthening our human resources management and aggressively localising our work force at different levels through our regional offices. A strong base of professionals is also very important to maintain the stability and support to the growth. We shall strive to keep a good supply of young talent through our management trainee programmes in Hong Kong and mainland China. Our strong team of passionate and professional managers inspires confidence that DCH can expand faster in mainland China and other markets.

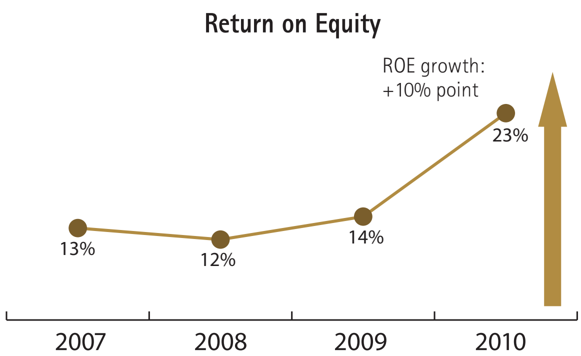
## Strong Financials for Healthy Development

A strong cash flow from our operations, a comfortable gearing ratio and a healthy cash position all place us well to respond quickly to various challenges in the market and to pursue new investment opportunities. Our strong track record and solid financial position have enabled us to win the trust of investors and financiers, as well as our vendors. To enhance the long-term financial stability of the Group, we have continued to manage financial risk by utilising various hedging instruments.

The Group is also committed to harnessing the power of state-of-the-art IT infrastructure to improve our operational efficiency, enabling the management to respond more promptly to the ever-changing business environment as we pursue fast-track growth.

## Creating Value for Shareholders

Since we were publicly listed, we have accomplished a milestone objective in creating good value for our shareholders by doubling the turnover and almost tripling the profit attributable to shareholders. Return on equity ("ROE") escalated from 13.8% in 2009 to 23.0% in 2010. The dividend payout increased from 15.80 HK cents in 2009 to 23.45 HK cents this year. With the recognition by investors of the sustained good results, the market capitalisation of DCH grew by 152% during the year to HK$14,970 million by the end of 2010.




In the times to come, we will continue our proven strategies, making every endeavour to grasp the enormous opportunities in Greater China region and beyond.

## Appreciation

In closing, I would like to thank all of DCH's directors and employees for their dedication and hard work throughout the year. To our shareholders, thank you for your unwavering trust.

***We will continue to maintain sustainable growth and a profitable enterprise for the long-term benefit of our shareholders.***

**Hui Ying Bun**, *Chairman*
Hong Kong, 2 March 2011

HK$32,211m

TURNOVER OF THE GROUP

HK$1,411m

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

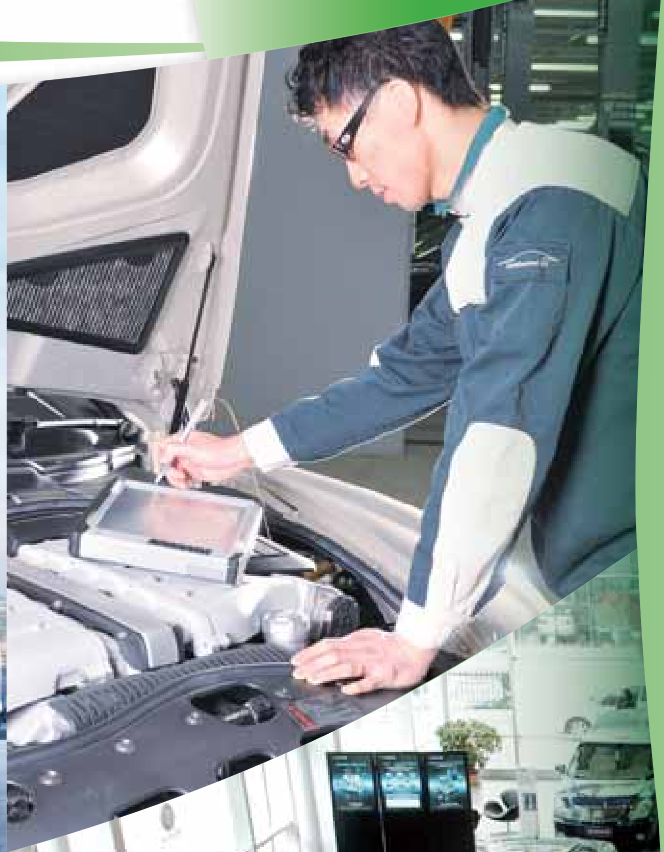
## Business Review & Prospects

### Operating Results

For the year ended 31 December 2010, the Group recorded a total turnover of HK$32,211 million, an increase of 45.0% against the previous year (2009: HK$22,209 million). Profit attributable to shareholders grew by 98.7% to HK$1,411 million compared to HK$710 million in 2009. Excluding non-operating items, such as net valuation gain from investment properties of HK$30 million (2009: loss of HK$12 million), gain on disposal of properties held for own use of HK$122 million (2009: HK$56 million) and gain on disposal of jointly controlled entities ("JCE") of HK$331 million (2009: HK$5 million) and adding back non-operating expenses such as impairment losses on goodwill, intangible assets and fixed assets of HK$106 million (2009: HK$14 million) and other non-operating expenses of HK$34 million (2009: HK$4 million), the Group's adjusted net profit for the year amounted to HK$1,068 million, representing a growth of 57.3% when compared to last year's HK$679 million.

During the year, the Group disposed of its entire 50% equity interest in Shiseido Dah Chong Hong Cosmetics Limited ("SDC") to Shiseido Company, Limited at a consideration of HK$500 million and realised a gain of HK$331 million. Upon completion of the disposal, the Group no longer has any equity interest in SDC and SDC ceased to be a JCE of the Group from July 2010 onwards.

The adjusted net profit margin was 3.3% versus 3.0% in 2009. Basic earnings per share grew by 98.4% to 78.33 HK cents per share for the year. The Board of Directors proposed payment of a final dividend of 12.77 HK cents per share for the year ended 31 December 2010. Together with the interim dividend of 10.68 HK cents per share already paid during the year, total dividend for the year ended 31 December 2010 amounted to 23.45 HK cents per share.

# Motor and Motor Related Business


BUSINESS REVIEW

# Motor and Motor Related Business

## Segment Results

As the world's number one car market in terms of units sold, mainland China's auto sales continue to speed ahead impressively in 2010. The bourgeoning middle-class has created a huge demand for middle-range to luxury cars. DCH Motor Business' Segment Turnover in 2010 increased by 57.4% to HK$24,643 million, representing 76.5% of the Group's total turnover (2009: 70.5%). Segment result from operations leaped by 59.6% to reach HK$1,301 million with the segment margin at 5.3% versus 5.2% last year. Segment profit after taxation also grew by 58.3% to reach HK$1,016 million. The substantial growth in segment profit was attributable to the rapid expansion of our 4S shops, the increasing demand for luxury cars in mainland China, and the economic recovery in Hong Kong and Macao.

**+57.4%**

**Growth in Segment Turnover**

# MOTOR AND MOTOR RELATED BUSINESS

## Mainland China

Segment Turnover increased by 64.6% year-on-year to HK$19,350 million mainly attributable to the strong growth of China's auto market in particular the huge demand for mid-to-high-end vehicles, the rapid expansion of our 4S shops network and the increase in sales of heavy duty trucks in line with the infrastructure development in the PRC. Segment margin remained the same as last year at 4.9%.

Mainland China has been the world's largest vehicle market in terms of units sold since 2009. As the momentum continues, a year-on-year growth of vehicles sold recorded 32.4% to 18 million units in 2010.

DCH's China Motor Business has grown 45.9% in terms of units sold, outperforming the overall market in the country. A total of 58,800 vehicles were sold through DCH's sales and distribution network in 2010, including 44,800 passenger cars and 14,000 commercial vehicles.

The rapid economic growth, the quickly emerging and expanding middle class with high disposable income, and the continued infrastructure investment in the road network of mainland China have created a lucrative business environment. Riding on its professionalism, extensive distribution network and unparalleled services, DCH is a distinctive motor business operator with a well diversified yet balanced portfolio, covering distributorship, dealership and motor related businesses.


## Distributorship

The newly affluent Chinese are driving the demand for high-performance, top-range luxury passenger cars. As the exclusive national distributor for Bentley in mainland China, DCH has been endeavouring to make it leader of the class with extensive branding efforts, a vast distribution network and comprehensive service support. In 2010, four more Bentley dealerships were appointed, reaching a total of 13 within the country. We have set up a Bentley Academy in Shanghai with full support from the principal to provide professional training, and a parts centre to offer timely support for our customers. DCH's professionalism and the superior quality of Bentley have combined to achieve great result with sales volume increased by 93.6% to 815 units in 2010.

Partnering with Isuzu for more than 30 years, through the Group's strong knowledge of mainland China market, DCH has successfully established Isuzu as the leader of the imported Japanese heavy duty truck market in the country. In 2010, sales volume doubled to close to 7,000 units, a truly astounding result.

## Dealership

DCH has increased the number of 4S shops from 40 in 2009 to 55 by the end of 2010, including eight 4S shops of Shenye Group that the Group acquired during the year. The same store car sales and service units increased by 20.9% and 9.1% respectively.

In line with the Central Government's direction of promoting local auto brands, DCH marked a milestone by adding a new local high-end brand, GAC Trumpchi(廣汽傳祺), to the Group's portfolio. By the end of 2010, the Group represented 20 brands in mainland China, including Bentley, Bugatti, Chevrolet, Dongfeng Honda, Dongfeng Nissan, FAW Audi, FAW Jilin, FAW Mazda, FAW Toyota, GQ Honda, GAC Toyota, GAC Trumpchi, Haima, Isuzu, Lexus, Mercedes Benz, Qingling, Renault, SAIC VW and SGM Buick. DCH has maintained a balanced portfolio with both globally renowned and local auto brands suited for customers in the mid-to-high-end market.

DCH's service and management capability are highly recognised by the principals. We were ranked the "National Top 10 4S Shop in China" by GAC Toyota and FAW Toyota and received numerous remarkable awards in the reporting year, including "Four-Star Sales" and "Four-Star After-Sales Service" awarded by SGM Buick, "Gold Key Dealership Award" by Dongfeng Honda, as well as the "National Best Dealership General Manager" by FAW Audi.

### Motor Related Business

The rapid expansion of the motor vehicle population in recent years has opened up many Motor Related Business opportunities.

The motor leasing business in Beijing, Tianjin and Shanghai were performing well and two more branches were added to the Group's business network, covering a total of five cities. The first independent service outlet in Dongguan was established by the end of 2010, providing professional maintenance and repair services for all brands of passenger cars. The vehicle inspection and used car centre in Guangzhou also enabled DCH to capture the emerging vehicle after-sales and used car market.

To enhance the upstream capabilities of our Motor Related Business, DCH's joint-venture lubrication oil blending plant in Xinhui has commenced production in November 2010. Full scale production is expected to start in 2011.


## Hong Kong and Macao

### Motor Business

Segment Turnover increased by 32.3% year-on-year to HK$4,217 million as the economy in Hong Kong and Macao continue to recover whilst segment margin improved to 7.8% versus 7.1% in 2009.

Benefiting from the rebounding appetite for new vehicles in the city, a total of 40,700 vehicles were sold in Hong Kong. DCH remained a major player in the new vehicle market, capturing 22.7% market share. A total of 9,200 vehicles were sold in 2010, including 6,800 passenger cars and 2,400 commercial vehicles. The year-on-year growth in the total number of vehicles sold was 22.4%.

The European brand passenger cars have become more popular because of the favourable exchange rate of the Euro and the launch of a large number of new car models of European makes. Audi recorded a growth of 35.4% in units sold which sustained the growth path for seven consecutive years. To meet the rising demand of Audi customers, the new Audi showroom in Tsim Sha Tsui was launched in December 2010. It has been described as the largest auto showroom in town.

Nissan has recorded a satisfactory growth of 26.5% in sales. Its new models have been well received by the market, particularly the new luxury MPV Elgrand. We have set up a new Honda showroom in Kowloon Bay, a newly developed district for motor dealerships in the territory.

Besides, the HKSAR Government incentive scheme on the replacement of pre-Euro and Euro I vehicles has boosted the sales of trucks and buses, the market segments in which DCH maintains the leading position.

## Motor Related Business

This sector has continued to achieve satisfactory growth. Motor leasing, vehicle inspection, motor parts distribution and environment-friendly products have all generated positive contribution to the Group. In particular, the Yokohama high performance tyre has received an encouraging response from the market, recording remarkable sales. In the environment-friendly product business, the diesel particulate filter retrofit programme for franchised buses has proceeded smoothly.

## Other Markets

In Taiwan, the newly established Audi business has performed satisfactorily, with our sales volume accounting for 25.9% of the Audi's total sales volume in the market. The second Audi Terminal in Hsinchu has commenced operation in December 2010. In Singapore, the business was affected by the high prices of the Certificate of Ownership Entitlement ("COE") on automobiles. In Canada, the business contribution from Acura was still hindered by the unfavourable economic environment in the North American market.



# Food and Consumer Products Business

BUSINESS REVIEW

# Food and Consumer Products Business

## Segment Results

The Segment Turnover from Food and Consumer Products Business recorded a 15.5% rise to HK$7,206 million compared with HK$6,240 million in 2009. Segment result from operations jumped by 63.1% to HK$181 million while the segment margin improved to 2.5% compared with 1.8% last year. This was attributable to the improvement in segment margin in the PRC market whilst the operating loss in the overseas market also reduced. Segment profit after taxation increased by 16.7% only to HK$175 million (2009: HK$150 million) with share of profit from JCE reduced upon the disposal of SDC in July 2010.

**+15.5%**

**Growth in Segment Turnover**

# FOOD AND CONSUMER PRODUCTS BUSINESS

## Mainland China

The Segment Turnover increased by 26.0% year-on-year to HK$2,863 million and segment margin improved to 2.5% versus 2.3% in 2009, mainly attributable to the substantial sales growth in FMCG (with a year-on-year turnover growth of 34.2%).

In the FMCG business, Ferrero chocolate, Anlene & Anmum milk powder, Brand's health products and UHA chocolate were selling well in mainland China. In view of the increasing demand for quality imported food products, DCH has added six major brands to its portfolio, including Senz confectionery, Ausnutria milk powder and Eiwa candy. In terms of distribution, we have extended our network to cover more than 16,000 outlets in 75 cities in mainland China.

In the category of food commodity products, overall turnover maintained a steady growth in 2010 in spite of the cessation of the edible oil business. Frozen meat items such as Valley Chef chicken franks recorded a satisfactory growth. High quality rice and other commodities were introduced to capture the rising middle-class who demand a more diversified choice and higher quality of products.

We continued to develop our upstream business and strengthen the total food supply chain of DCH. The food processing plant with sourcing capability in Jiangxu Province began trial processing of frozen vegetable products for the Shanghai market by the end of 2010. On the other hand, the Pocari Sweat Phase-2 manufacturing plant construction was in progress.

Audio-visual products such as the Monster headphones were doing well while the newly introduced Polkaudio has received very positive feedback from the market.

## Hong Kong and Macao

Due to the increased consumer spending spurred by a reviving economy, Segment Turnover from Hong Kong and Macao climbed by 13.6% to HK$3,439 million year-on-year.

In our upstream business, the new Yuen Long Food Processing Centre commenced operation in 2010 which increased the Group's production capacity by 100%. The higher production volume enables the Group to capture more market share. Smoked salmon, sausages and cold-cuts are the popular items for hotels and restaurants as well as for retail consumers.


For our mid-stream distribution, major products such as Almond Roca, Campbell's, and Arla were selling well with turnover growth of 20% to 30% recorded. The Group continued to broaden its product portfolio and extend its distribution network. Brand's health supplements, Mazola edible oil and Tabasco condiment were added in 2010, all of which reported satisfactory sales.

Regarding the downstream business, the Group also expanded its food retail network in Hong Kong at a faster pace. There was a total of 79 Food Mart retail outlets by the end of 2010. The same store sales per square foot rose by 11.7% over last year which remarkably outperformed the Hong Kong supermarket retail sales growth in the same period.

Encouraging sales growth of 17.8% was recorded in the electrical appliances category. The Electrolux and Zanussi white goods such as washing machines, refrigerators, vacuum cleaners and other home appliances were performing well. In the audio-visual product category, we have introduced the new renowned brand Polkaudio and Cabasse. Sales of existing lines were also performing well.

## Other Markets

The market environments of Singapore and Japan were still stagnant. European and American markets have yet to fully economically recover, affecting our small electrical appliances manufacturing business in Shunde.


# Logistics Business


BUSINESS REVIEW

# Logistics Business

**+12.0%**

**Growth in Segment Turnover**

## Segment Results

The Segment Turnover of our Logistics Business increased by 12.0% to HK$365 million from HK$326 million in 2009. Segment result from operations dropped by 12.0% to HK$22 million year-on-year and the segment margin decreased to 6.0% compared with 7.7% in 2009. This was mainly attributable to the reduction in segment margin of Hong Kong and Macao to 6.8% versus 9.1% in 2009 after absorbing start-up expenses of some newly developed logistics facilities in Yuen Long whilst the mainland China operation started making profit in 2010.

In mainland China, the newly completed cold storage and bonded warehouse in Xinhui Logistics Centre commenced operation in the second quarter of 2010, enabling DCH to extend the service offerings substantially. The seamless cold chain management represents the most comprehensive system of its kind in the Pearl River Delta ("PRD") region. This solution is perfect for products that require stringent temperature control from production to delivery. Together with our bonded repacking capability, modern storage facility, and value-added services such as product inspection and sourcing, DCH Logistics provide the most cost-effective total supply chain solution to our product principals as well as other customers in the PRD region.

The seamless cold chain system in Xinhui has facilitated a large Hong Kong based supermarket in their sourcing, storage and delivery functions within the western PRD region. A customised logistics solution has been tailored for Ferrero chocolate, ensuring that the highest product quality is being delivered throughout mainland China and across Asia.

The Yuen Long Logistics Centre commenced full-scale operation in the first quarter of 2010, providing a full range of logistics services in Hong Kong.

## PROSPECTS

We have been greatly encouraged by our ability to exceed business targets and achieve strong CAGR for turnover and net profit over the past several years. Our achievements in 2010 demonstrated that DCH is moving proactively ahead. Leveraging our solid business platform, we are striving to continue this growth momentum in coming years by focusing on the Greater China market, especially the rapidly expanding middle-class in mainland China.

Looking to the future, we are confident that our Motor Business will continue to achieve long-term profitability as we are convinced that the Group has established the right positioning and set up the right dealerships to capitalise on the tremendous opportunities presented by the automobile retail industry in mainland China.

We have made great strides in Food and Logistics Business units as well and their contributions to the Group are expected to grow in a similar fashion. A Total Food Supply Chain remains the core strategy of our Food Business. In particular, we plan to aggressively expand our FMCG operation by enriching our portfolio with more internationally renowned imported food products. Moreover, the Group intends to explore mergers and acquisitions opportunities to further enlarge our nationwide distribution network. We believe that our Logistics Business, which has achieved significant synergies with our Food Business, will play an increasingly important role in driving the Group's growth in the future.

# MOTOR AND MOTOR RELATED BUSINESS

## Mainland China

In 2011, double-digit growth in mainland China's automotive industry is expected to continue despite austerity measures aimed at controlling the spiralling growth of vehicle population in Beijing.

### Distributorship

For the distributorship business, we are speeding up extending the network of Bentley dealerships by appointing more quality dealers in different cities to meet the demand of the growing affluent population in mainland China. We aim to increase the sales volume of Bentley by 50% and appoint five more Bentley dealerships in 2011, forming a comprehensive and extensive sales and service network in this emerging market.

We are also optimistic about the outlook of our Isuzu commercial vehicle business. According to the 12th Five-Year-Plan (for the 2011-2015 period), mainland China is to continue to build more roads and possess the world's largest national highway network. This opens up business opportunities for us as the national distributor of Isuzu. The demand for commercial vehicles will continue to rise in parallel with the large-scale infrastructure development in 2011.

## Dealership

Our expansion target is to add 10 to 15 4S shops each year and continue to focus on middle-range to luxury brands dealerships. The Group has already started the development of seven new dealerships, including FAW Audi, FAW Toyota, GQ Honda and Lexus in Shenzhen (深圳), Changsha (長沙), Wenzhou (溫州), Liuzhou (柳州), Jiujiang (九江), Maoming (茂名) and Guigang (貴港). Apart from the key cities in southern and eastern China, more 4S shops are to be opened in second- and third-tier cities to capture these up-and-coming markets. We are confident that our sales growth will outperform the market.


Along with the new dealership business, demand for after-sales service will also increase and we will put more effort to boost the turnover and margin of our Motor Business by capturing these demands. We will deploy customer relationship management ("CRM") strategies to optimise the profit and reinforce customer loyalty in order to sustain our long-term development.

## Motor Related Business

The Group will carry on expanding the Motor Related Business in mainland China, including independent service outlets, motor leasing, and the upstream business.

Following the first independent service outlet, another outlet in Dongguan is to be opened in the first quarter of 2011. And to further our pilot operation, a total of ten outlets are planned to be established in Guangdong Province in 2011.

In 2011, we will open four to five more motor leasing service branches. The increase in number of branches enable us to offer cross-city services and build up a network providing point-to-point services to customers in different regions.

Our joint-venture lubrication oil blending plant, is expected to gradually increase the production volume in the coming few years which will be an integral part of our Motor Business in the upstream that support the growth of the segment. Following the successful establishment of the plant, we are appointed as the sole national distributor by Repsol for their engine oil and other products in the PRC. The Group will continue to explore new opportunities for the Motor Related Business in the upstream.

## Hong Kong and Macao

We expect steady growth in 2011 in these territories and maintain our competitiveness by introducing the right products at the right time to the right target.

As a forerunner in the industry, DCH will bring in 200 units of Nissan LEAF electric passenger vehicles to the Hong Kong market in the first quarter of 2011 to capture the increasing demand for "green" vehicles. Besides, the trial run of the electric bus we introduced last year has been successful. The industry feedback was encouraging, strengthening our confidence in the sales in coming years.

Meeting the changing appetite of customers, flexible product strategies, including the introduction of new vehicles, will be deployed to gain more market share in Hong Kong, generating a higher turnover for the Group which in turns benefits our shareholders.

For environment-friendly products, the HKSAR Government subsidised retrofit programme of Selective Catalytic Reduction Devices on Euro II and Euro III diesel buses will present a good business opportunity in the coming few years. We will capitalise on our expertise to optimise this opportunity.

## Other Markets

The Asia market is the key driver for global recovery. With the strong foundation laid in the previous year, our new operation in Taiwan is expected to grow under a favourable economic environment. We remain optimistic about the prospects for Taiwan's car market and we will expand our Motor Business in the region.

2011 will still be a difficult year for the Motor Business in Singapore market while the cost of COE remains high. DCH will start to introduce a new Foton commercial vehicle in Singapore to capture more market share.

# FOOD AND CONSUMER PRODUCTS BUSINESS

## Mainland China

The 12th Five-Year Plan of the Chinese Government with an aim to further stimulate domestic consumption will act as a catalyst of the mainland China consumer market. Geographically, the Yangtze River Delta and PRD regions will remain our focus as DCH has already developed strong bases there.

On the distribution front, we will keep sourcing more high quality FMCG products in beverages, dairy products, bakery, condiment and health supplement categories, while extending the distribution network to more second- and third-tier cities in mainland China.

With regard to the upstream food business, the Group will increase the capacity of the Jiangxu food processing plant to offer different product types to capture a wider segment of customers in the Yangtze River Delta region. To seize the tremendous business opportunities arising from the Economic Cooperation Framework Agreement, the Group will set up food processing facilities, distribution platform and a cold chain system in Xiamen to import and process more quality food products from Taiwan and other areas into mainland China.

In southern China, full endeavour will be made to construct the Pocari Sweat Phase-2 plant at Xinhui.

In the electrical appliances business, more foreign high-end audio-visual products will be introduced to the market and we will further expand the distribution network into more popular mass-market electrical / electronic appliances retail chains.

## Hong Kong and Macao

Capitalising on its expertise and long developed business network, DCH is taking its Food Business forward by developing private labels in various categories, including coffee, pasta, herbal tea and biscuits. These private label products are to be offered to our commercial clients as well as retail customers.

In terms of food retailing in Hong Kong, DCH will add more than ten Food Mart Outlets in Hong Kong in 2011 while stepping up its marketing and promotion efforts.

The Group will also continue to look for more high quality household appliances and audio-visual products to add to our portfolio.

## Other Markets

For the Singapore and Japan operations, the market is still unclear in the coming year and we will endeavour to secure our market position to maintain a reasonable profit contribution to the Group. Regarding our small electrical appliances manufacturing plant, the outlook is becoming more positive and we are taking appropriate measures in cost saving as well as diversifying our product portfolio to meet demands of different customers. New products are in the pipeline for launch which inspire our confidence.

# LOGISTICS BUSINESS

The Group has established a solid modern logistics platform that provides a broad range of services in the PRD region. It will extend this platform, including its cold chain solution, to coastal cities of eastern and southern China to catch up with the substantial demand for modern third-party logistics services and support its strategic direction of total food supply chain development.

Furthermore, we will establish our first mainland China food inspection centre in Xinhui to address consumers' growing awareness of food safety as well as to safeguard the quality of our products. We aim to provide a cost effective food safety inspection firewall for our principals' products to be imported into mainland China.

# FMCG
# MARKET PROFESSIONALS IN MAINLAND CHINA

## Achievements


With impressive growth in the past few years, the fast moving consumer goods (FMCG) business of DCH in mainland China has gained in stature to become a key contributor to the Food and Consumer Products segment of the Group. Continued growth in turnover at a compound annual growth rate (CAGR) of 34% has been recorded since DCH's listing in 2007. Within the period, the number of brands represented increased more than fivefold, from 30 in 2007 to 165 in 2010, and the distribution network was enlarged from 30 cities to 75 cities, covering more than 16,000 retail outlets. DCH is now a prominent FMCG marketer in mainland China with a specialisation in quality food products of imported brands.

## Capturing the Right Market with the Right Product through the Right Channels

Sustained high growth of gross domestic income, the rising middle-class and emerging second- and third-tier cities are all good factors that make mainland China the most attractive market in the world. The booming consumer market and increasing demand for quality products presents enormous business opportunities for FMCG.

Sims Trading, a wholly-owned subsidiary of DCH, pioneered the development of the Group's FMCG business and has brought a variety of imported products with world-renowned brands, including confectioneries, diary products, health supplements, beverage products, etc., into mainland China. Over the years, we have established a widespread national distribution network covering 75 cities and forged strong relations with key retail chain operators such as Carrefour, Wal-mart, Lianhua, Hualian, Metro, Auchan and RT-Mart.

** 100 is the index with 2007 as the base year*

## Success Formula

### Nationwide Distribution Network

The ever-expanding nationwide distribution network sharpens the winning edge of DCH. Market penetration of products is faster and easier in mainland China, thus enabling satisfactory turnover and profit.

### Total Logistics Solutions

Our service offerings extend beyond distribution and delivery. DCH offers a diverse range of logistics solutions so we can serve as a collaborative partner for our overseas principals rather than simply a distribution agent. Among DCH's capabilities include packing, material sourcing, modern storage systems, temperature-controlled packing and repacking, intra-city and inter-city transportation, hassle-free importation services including the handling of CIQ and customs-clearance related issues, as well as food safety inspection. These comprehensive services not only enhance supply efficiency but also minimise logistics costs, bringing benefits to both DCH and the principals.

### Market Knowledge and Expertise

Through years of practice in mainland China, DCH has accumulated rich experience and acquired good knowledge of the market. The fast growth of business is made possible by the team of versatile professionals who have sophisticated marketing and branding skills, expertise in trade planning, and strong key account relations experience and who can quickly adapt to market and regulatory changes.

### Timely Communication with Principals

As a trusted business partner, we communicate regularly with our principals to keep them abreast of the latest development and market intelligence, enabling them to respond quickly to the market situation.

### Quality Portfolio from a Global Supply Network

With a strong global network of suppliers, DCH has created a comprehensive quality product portfolio comprising mostly renowned imported brands, such as Almond Roca, Ferrero, Wyeth, and Pocari Sweat, etc. This range of products enables the Group to capture the mid-to-high-end market through its distinct competitive advantages, addressing the needs of quality-conscious customers who have a high concern about food safety and product quality.

## Looking Ahead

The increasing demand for a higher quality of product, food safety and taste in mainland China have brought tremendous business opportunities to DCH. We will capitalise on our strength and continue to promote long-term collaborative partnerships, including the creation of joint ventures that bolster our capabilities in manufacturing and distribution, paving the way for further success in Greater China.

### DCH – The FMCG Specialist

With more than 50 years of distributorship experience in Hong Kong and 20 years in mainland China, DCH now represents more than 70 FMCG brands in Hong Kong and 165 brands in mainland China, covering more than 700 pre-packaged food items, beverages, confectioneries, dairy products, health supplements, wines and healthcare products sourced from more than 28 countries.

### Some of the key household brands are listed below:

| | |
|---|---|
| **Confectionery** | Ferrero (Italy), Arcor (Argentina), Almond Roca (US), UHA (Japan) |
| **Milk powder** | Anlene & Anmun (New Zealand), Wyeth (US), Meiji (Japan) |
| **Dairy products** | Arla, Lurpak (Denmark), Country Goodness (New Zealand) |
| **Beverage** | Pocari Sweat (Japan), Crystal Geyser (US), Lipovitan (Japan), Kagome (Japan) |
| **Grocery** | Mazola (US), Tabasco (US), Colman's (UK) |

In addition to the already successful brands, DCH has started to develop high quality house brands and continues to import more high quality products from overseas.

**Ferrero**

Dynamic sales growth since 2008 has been supported by the principal's use of DCH value-added services, including a temperature-control repackaging and logistics solution.

**Pocari Sweat**


Otsuka Pharmaceutical, after dominating the Hong Kong market through Sims Trading, entered a joint venture together culminating in the establishment of a production plant in Xinhui, Guangdong, for the production of Pocari Sweat in 2005.

**Almond Roca**


A unique confectionery brand from the U.S. that has benefited from our sales & marketing and repacking services in Hong Kong and China has also provided sales turnover for the Group.

**Ovaltine**

A long established brand in the nutritional malted drink category. The effective penetration of several thousand teahouses further accelerated brand growth and acceptance.

# FINANCIAL REVIEW

## Introduction

The Group's 2010 Annual Report includes a letter from the Chairman to shareholders, the financial statements and other information required by accounting standards, legislation, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This Financial Review is designed to assist the reader in understanding the Group's financial information by discussing the contribution of each business segment and the financial position of the Group as a whole.

## Turnover

Turnover in 2010 was HK$32,211 million, increased by 45.0% compared with HK$22,209 million in 2009, which was mainly attributable to the followings:

- **Motor and Motor Related Business**

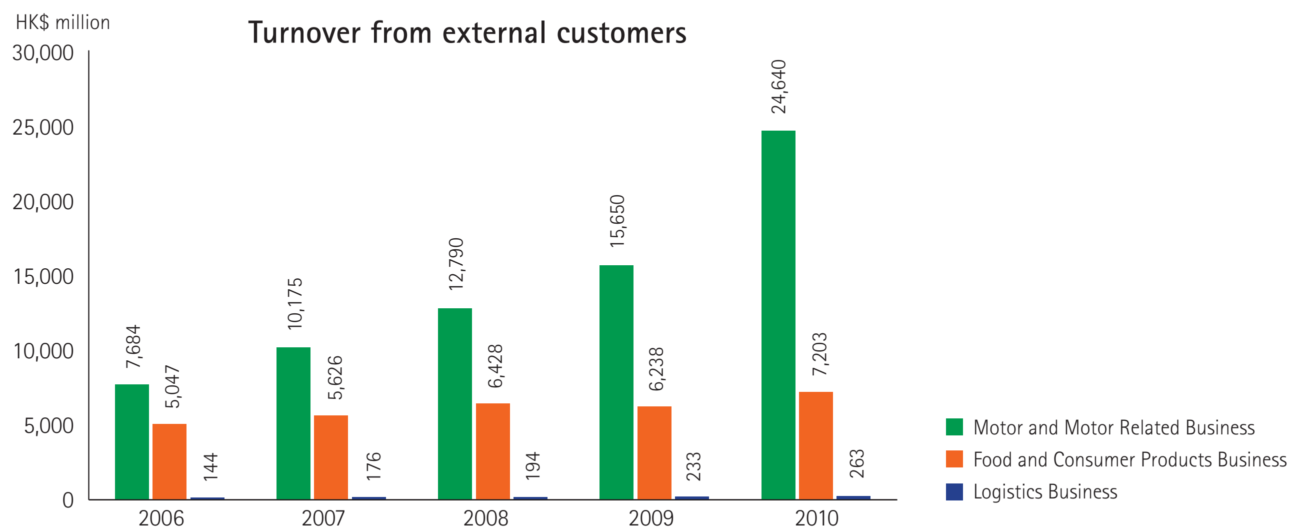
  Turnover of Motor and Motor Related Business was HK$24,640 million for the year ended 2010, increased by 57.4% from HK$15,650 million for the year ended 2009. The increase was mainly attributable to the strong growth of the mainland China's auto market in particular the huge demand for mid-to-high-end vehicles and rapid expansion of our 4S shops network and increase in sales of heavy duty commercial vehicles in line with the infrastructure development in mainland China. The economic recovery in Hong Kong and Macao and the HKSAR Government incentive scheme on the replacement of pre-Euro and Euro I vehicles has boosted the sales of vehicles.

- **Food and Consumer Products Business**

  Turnover of Food and Consumer Products Business was HK$7,203 million for the year ended 2010, increased by 15.5% from HK$6,238 million for the year ended 2009. This was mainly due to our expansion of FMCG business in mainland China to meet the increasing demand for quality import food products. The increase in consumer spending spurred by a reviving economy in Hong Kong market and the broadening of the product portfolio and distribution network also contributed to the sales growth in Hong Kong.

- **Logistics Business**

  Turnover of Logistics Business grew steadily by 12.9% to HK$263 million for the year ended 2010 in line with the completion and put into operation of logistic facilities in Xinhui and Yuen Long during the year.



## Segment Profit After Taxation

Segment profit after taxation by major reportable segments in 2010, compared with 2009, were as follows:

- **Motor and Motor Related Business**

  Segment profit after taxation has increased sharply by 58.3% to HK$1,016 million. This was attributable to the increase in profit contribution from our car dealership business in mainland China with the number of 4S shops increased from 40 to 55 by the end of 2010 and the growth of the distribution of Bentley super luxury vehicles and Isuzu heavy duty trucks in mainland China. The increase in sales of passenger cars and commercial vehicles in Hong Kong market also contributed to the increase in the segment profit.

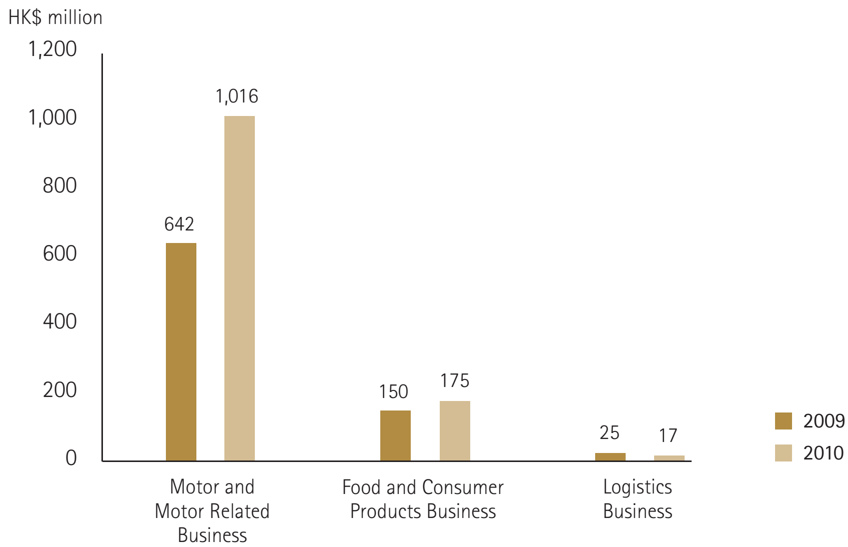
- **Food and Consumer Products Business**

  Segment profit after taxation grew by 16.7% to HK$175 million which was attributable to the increase in segment profit of food business in both mainland China and Hong Kong market and the narrowing of the operating loss in overseas markets. In mainland China, we have expanded our high quality FMCG product portfolio and extended our distribution network to more cities, thereby improving the segment margin and profit. In Hong Kong, the increase in sales of FMCG including confectionery, canned food, dairy products and frozen and chilled food commodities, the expansion of the food retail outlets and the encouraging performance from our electrical appliances business all contributed to the increase in segment profit.

- **Logistics Business**

  Segment profit after taxation decreased by 32.0% to HK$17 million. The decrease in segment profit in Hong Kong was mainly due to absorption of start-up expenses of the Yuen Long Logistics Centre which has commenced full-scale operation since the first quarter of 2010. The newly added logistics facilities in Xinhui, including cold storage, a bonded warehouse and third party warehouses, have started operation in phases since the second quarter of 2010 and started making profit in 2010.

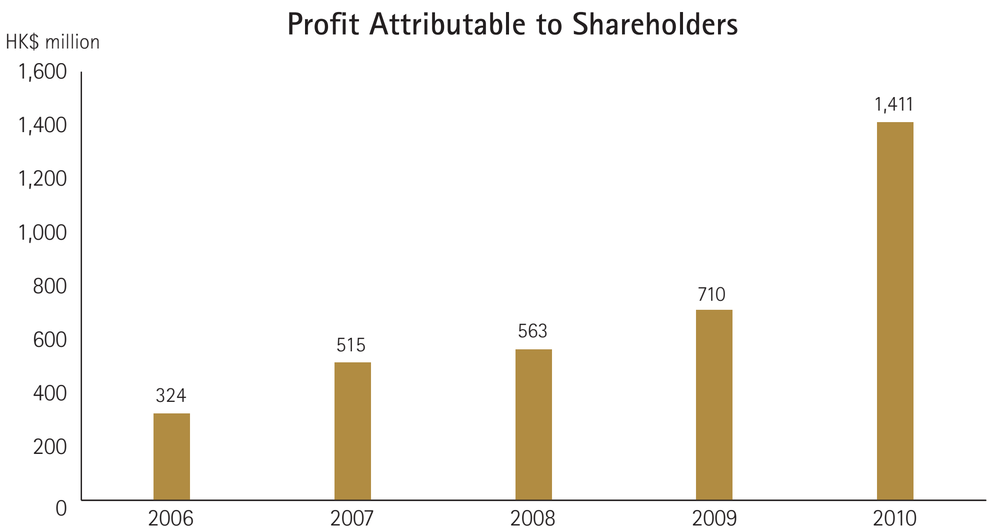
### Segment Profit After Taxation




Note: Segment profit after taxation represents profit after taxation from each reportable segment including share of profit after tax of associates and jointly controlled entities. Items not specifically attributable to individual segment (such as corporate expenses) are not allocated to the reportable segments.

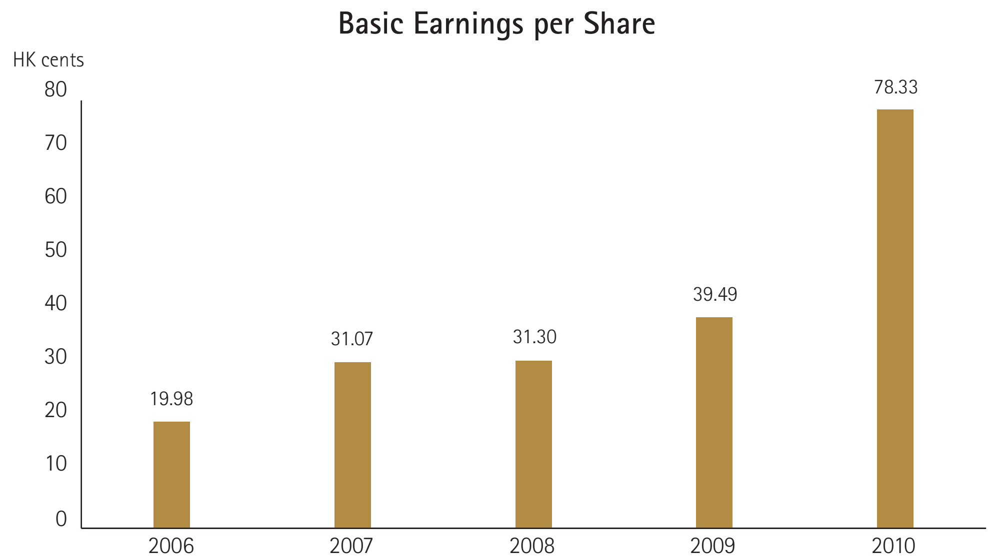
## Profit Attributable to Shareholders

Profit attributable to shareholders of the Company for the year ended 2010 was HK$1,411 million, an increase of 98.7% as compared with HK$710 million for the year ended 2009, after taking into account the net gain on disposal of properties held for own use of HK$122 million (2009: HK$56 million) and net gain on disposal of jointly controlled entities of HK$331 million (2009: HK$5 million).




## Basic Earnings per Share

Calculation of basic earnings per share for the year ended 2010 was based on the profit attributable to shareholders of the Company and the weighted average of 1,801,403,329 ordinary shares (2009: 1,797,833,000 ordinary shares) in issue during the year. Basic earnings per share was 78.33 HK cents for 2010, an increase of 98.4% as compared with 39.49 HK cents for 2009, mainly attributable to the increase in profit.




## Dividend per Share

The Board of Directors proposed payment of a final dividend of 12.77 HK cents per share for the year ended 31 December 2010 (2009: 11.29 HK cents), together with the interim dividend of 10.68 HK cents (2009: 4.51 HK cents) already paid, the total dividend for 2010 is 23.45 HK cents (2009: 15.80 HK cents).

## Finance Costs

The Group's finance costs increased by 2.7% from HK$112 million in 2009 to HK$115 million in 2010 mainly due to the increase in borrowings in 2010, the impact of which was partially offset by the decrease in interest rates for borrowings in both Hong Kong and mainland China.

## Income Tax

Income tax increased by 47.3% from HK$239 million in 2009 to HK$352 million in 2010. Included under deferred tax charge in 2010 was de-recognition of deferred tax assets of HK$21 million (2009: HK$51 million). The increase in income tax is in line with the increase in profit from operations.

## Net Asset Value per Share

Calculation of net asset value per share was based on the net asset value of the Group of HK$7,111 million (2009: HK$5,756 million) and the 1,814,508,000 ordinary shares issued at 31 December 2010 (2009: 1,797,833,000 ordinary shares). Net asset value per share at 31 December 2010 was HK$3.92 (2009: HK$3.20 per share).

## Capital Expenditure

In 2010, the Group's capital expenditure was HK$654 million (2009: HK$481 million) and major usages were summarised as follows:

| | |
|---|---|
| Motor and Motor Related Business | – For developing new 4S dealerships in mainland China and acquisition of motor vehicles for leasing businesses in Hong Kong and mainland China |
| Food and Consumer Products Business | – Fixtures and fittings, plant and equipment |
| Logistics Business | – For construction of logistics facilities in mainland China and Hong Kong |
| Other Business | – Properties, fixture and fittings |
| Corporate Office | – Fixtures and fittings |

| HK$ million | 2010 | 2009 | Change |
|---|---|---|---|
| Motor and Motor Related Business | **445** | 235 | 210 |
| Food and Consumer Products Business | **63** | 72 | (9) |
| Logistics Business | **86** | 71 | 15 |
| Other Business | **42** | 88 | (46) |
| Corporate Office | **18** | 15 | 3 |
| Total | **654** | 481 | 173 |

## Use of Proceeds

Net proceeds of the Global Offering of the Group on 17 October 2007 amounted to approximately HK$1,003 million. Up to the end of December 2010, HK$472 million was used by Motor and Motor Related Business for investment and acquisition of 4S shops in mainland China and acquisition of motor vehicles for leasing businesses in Hong Kong and mainland China; HK$158 million was used by Food and Consumer Products Business for investment in new businesses and new shops for Food Mart; HK$287 million was used by Logistics Business for development of logistics facilities in mainland China and Hong Kong; and HK$40 million was used as funding for general working capital and general corporate uses.

## Treasury Policy and Risk Management

**General policies**

The Group remains committed to a high degree of financial control, a prudent risk management and the best utilisation of financial resources.

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

Due to market limitation and regulatory constraints, operating entities outside Hong Kong are responsible for their own cash management and risk management which are closely monitored by the head office. Financing activities outside Hong Kong are reviewed and approved by head office before execution.

**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 associated with the Group's borrowings.

The Group enters into foreign currency forward contracts primarily for hedging its sales and purchases that are denominated in currencies other than the functional currency of the operations to which they related. At 31 December 2010, the Group recognised foreign currency forward contracts with a fair value of HK$7 million liabilities (2009: HK$15 million liabilities).

**Interest Rate Exposure**

The Group's long-term bank borrowings are on a floating rate basis.

In January and February 2010, the Group had entered into a number of interest rate swaps with a notional contract amount of HK$225 million to reduce the impact of interest rate fluctuation on its unsecured bank borrowings. These interest rate swaps will be expired in March and July 2012.

**Employment of Derivative Financial Instruments**

The Group has made use of derivative financial instruments to hedge its interest rate and foreign currency exposures. Derivative financial instruments are for hedging purpose only and speculative trading is strictly prohibited. The credit risks of counterparties are also carefully reviewed.

## Cash Flow

**Summary of Consolidated Cash Flow Statement**

| HK$ million | 2010 | 2009 | Change |
|---|---|---|---|
| Operating profit before changes in working capital | **1,718** | 1,204 | 514 |
| (Increase) / decrease in working capital | **(1,453)** | 209 | (1,662) |
| Cash generated from operations | **265** | 1,413 | (1,148) |
| Income tax paid | **(340)** | (223) | (117) |
| Net cash (used in) / generated from operating activities | **(75)** | 1,190 | (1,265) |
| Net cash used in investing activities | **(333)** | (270) | (63) |
| Net cash generated from / (used in) financing activities | **369** | (739) | 1,108 |
| Net (decrease) / increase in cash and cash equivalents | **(39)** | 181 | (220) |

**Operating profit before changes in working capital**

Profit before taxation was HK$1,797 million in 2010 as compared to HK$989 million in 2009. After adding back the non-cash items like depreciation, amortisation, and impairment loss etc., and excluding non-operating items like the net gain on disposal of fixed assets and net gain on disposal of jointly controlled entities, operating profit before changes in working capital was HK$1,718 million (2009: HK$1,204 million).

**(Increase) / decrease in working capital**

By the end of 2010, working capital increased by HK$1,453 million which included increase in inventories of HK$931 million and increase in trade and other receivables of HK$1,398 million, partly offset by increase in trade and other payables of HK$876 million.

In 2009, working capital decreased by HK$209 million owing to the decrease in inventories by HK$125 million and increase in trade and other payables of HK$127 million, partly offset by increase in trade and other receivables of HK$43 million.

**Net cash (used in) / generated from operating activities**

Cash generated from operations, after taking into account the changes in working capital, was HK$265 million for 2010 (2009: HK$1,413 million).

After taking into account the income tax paid of HK$340 million (2009: HK$223 million), net cash used in operating activities in 2010 was HK$75 million (2009: net cash generated from operating activities was HK$1,190 million).

**Net cash used in investing activities**

Payments for purchase of fixed assets and lease prepayments in 2010 were HK$654 million (2009: HK$481 million) and net cash outflow for investments in associates, jointly controlled entities and other investments during the year was HK$366 million (2009: HK$53 million). After netting off the net proceeds from disposal of fixed assets and lease prepayments of HK$187 million (2009: HK$264 million), and the net proceeds from the disposal of a jointly controlled entity of HK$500 million (2009: Nil), net cash used in investing activities was HK$333 million (2009: HK$270 million).

**Net cash generated from / (used in) financing activities**

Net cash generated from financing activities was HK$369 million in 2010 as compared to net cash used in financing activities of HK$739 million in 2009. This was mainly due to the net proceeds from new bank loans and other borrowings of HK$795 million (2009: net repayment of bank loans and other borrowings of HK$489 million), net cash inflow from non-controlling interests of HK$15 million (2009: outflow of HK$4 million), and proceeds from shares issued under share option schemes of HK$89 million (2009: Nil), offset by interest paid of HK$115 million (2009: HK$112 million), dividends paid to shareholders of the Company of HK$395 million (2009: HK$134 million) and dividends paid to holders of non-controlling interests of HK$20 million (2009: Nil).

## Group Debt and Liquidity

The financial position of the Group as at 31 December 2010, as compared to 31 December 2009, is summarised as follows:

| HK$ million | 2010 | 2009 | Change |
|---|---|---|---|
| Total debt | **3,302** | 2,436 | 866 |
| Cash and bank deposits | **1,991** | 1,895 | 96 |
| Net debt | **1,311** | 541 | 770 |

The original denomination of the Group's borrowings as well as cash and bank deposit balances by currencies as at 31 December 2010 is summarised as follows:

| HK$ million equivalent | HKD | RMB | JPY | USD | CAD | SGD | NTD | Others | Total |
|---|---|---|---|---|---|---|---|---|---|
| Total debt | 984 | 1,974 | 229 | 19 | 19 | 5 | 72 | – | **3,302** |
| Cash and bank deposits | 298 | 1,385 | 158 | 93 | 4 | 18 | 13 | 22 | **1,991** |
| Net debt / (cash) | 686 | 589 | 71 | (74) | 15 | (13) | 59 | (22) | **1,311** |

### Leverage

The Group closely monitors its gearing ratio to optimise its capital structure so as to ensure solvency and the Group's ability to continue as a going concern.

As at 31 December 2010, the Group's gearing ratio was 16.2%, compared to 9.0% at 31 December 2009.

| HK$ million | 2010 | 2009 | Change |
|---|---|---|---|
| Net debt | **1,311** | 541 | 770 |
| Shareholders' funds | **6,804** | 5,457 | 1,347 |
| Total capital | **8,115** | 5,998 | 2,117 |
| Gearing ratio | **16.2%** | 9.0% | 7.2% |

Net debt increased in 2010 was mainly due to finance the increase in working capitals, increase of investments in mainland China and increase in dividends paid to shareholders of the Company.

The effective interest rate of the Group's borrowings as at 31 December 2010 was 3.8% (2009: 4.1%).

### Maturity Profile of Outstanding Debt

The Group manages its debt maturity profile actively based on its cash flow and refinancing ability during debt maturity. The borrowings were repayable as follows:

| | HK$ million | % of total |
|---|---|---|
| Within 1 year or on demand | 2,577 | 78% |
| After 1 year but within 2 years | 200 | 6% |
| After 2 years but within 5 years | 525 | 16% |
| Total | 3,302 | 100% |

### Available Sources of Financing

In addition to cash and bank deposits of HK$1,991 million as at 31 December 2010 (2009: HK$1,895 million), the Group had undrawn available loan facilities totalling HK$1,533 million (2009: HK$1,778 million), of which HK$100 million (2009: HK$600 million) was committed term loans and revolving loans and HK$1,433 million was money market lines (2009: HK$1,178 million). The Group also had available trade facilities amounting to HK$4,121 million (2009: HK$4,067 million). Borrowings by sources of financing as at 31 December 2010 is summarised as follows:

| HK$ million | Total | Utilised | Available |
|---|---|---|---|
| Committed Facilities: | | | |
| Term Loans and Revolving Loans | 1,073 | 973 | 100 |
| | | | |
| Uncommitted Facilities: | | | |
| Money Market Lines | 3,499 | 2,066 | 1,433 |
| Trade Facilities | 6,489 | 2,368 | 4,121 |

## Pledged Assets

At 31 December 2010, the Group's assets of HK$1,155 million (2009: HK$799 million) were pledged in relation to financing of discounted bills in Japan, leasing of vehicles in Canada and issuance of bank acceptance drafts in mainland China.

## Capital commitments

Please refer to note 34(a) to the financial statements for details of capital commitments outstanding at 31 December 2010.

## Contingent Liabilities

The Company has issued guarantees to banks in respect of banking facilities granted to and utilised by certain subsidiaries. The Group did not have any material contingent liabilities as at 31 December 2010.

## Loan Covenants

Major financial covenants for the committed banking facilities are as follows:

| | |
|---|---|
| Shareholders' funds | > or = HK$2,500 million |
| Net debt | < Shareholders' funds |
| Current assets | > Current liabilities |

At 31 December 2010, the Group had complied with all of the above financial covenants.

# FIVE YEAR SUMMARY

| At year end (HK$ million) | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Shareholders' funds | **6,804** | 5,457 | 4,865 | 4,282 | 3,655 |
| Debt | | | | | |
| Total debt | **3,302** | 2,436 | 2,909 | 1,947 | 863 |
| Cash and bank deposits | **1,991** | 1,895 | 1,643 | 1,653 | 742 |
| Net debt | **1,311** | 541 | 1,266 | 294 | 121 |
| Gearing ratio | **16.2%** | 9.0% | 20.6% | 6.4% | 3.2% |
| Interest cover (times) | **19** | 12 | 8 | 15 | 14 |
| Total capital | **8,115** | 5,998 | 6,131 | 4,576 | 3,776 |
| Capital employed | **10,106** | 7,893 | 7,774 | 6,229 | 4,518 |
| Property, plant and equipment [Note 1] | **2,115** | 1,763 | 1,634 | 810 | 665 |
| Investment properties | **704** | 808 | 910 | 786 | 707 |
| Lease prepayments [Note 1] | **299** | 315 | 270 | 160 | 67 |
| Interest in associates | **203** | 130 | 148 | 138 | 112 |
| Interest in jointly controlled entities | **356** | 258 | 234 | 165 | 160 |
| Available-for-sale investments | **8** | 5 | 5 | 37 | 156 |

| For the year (HK$ million) | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Profit attributable to shareholders | **1,411** | 710 | 563 | 515 | 324 |
| Basic earnings per share (HK cents) | **78.33** | 39.49 | 31.30 | 31.07 | 19.98 |
| Diluted earnings per share (HK cents) [Note 2] | **77.96** | 39.49 | 31.30 | 31.07 | N/A |
| Net valuation gain / (loss) on investment properties | **30** | (12) | (3) | 127 | 112 |
| EBITDA | **2,188** | 1,351 | 1,093 | 914 | 614 |
| | | | | | |
| Dividends per share (post-IPO) | **HK cents** | HK cents | HK cents | HK cents | |
| Interim | **10.68** | 4.51 | 6.43 | N/A | N/A |
| Final | **12.77** | 11.29 | 2.95 | 2.13 [Note 3] | N/A |
| Total | **23.45** | 15.80 | 9.38 | 2.13 | N/A |

Note 1: Figures of 2009 are adjusted for the adoption of the amendments to Hong Kong Accounting Standard 17 "Leases" which are effective for accounting period commencing on or after 1 January 2010.

Note 2: The diluted earnings per share for the years 2007 to 2009 are the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive. There was no outstanding share option by the end of 2006, thus no diluted earnings per share is presented.

Note 3: 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 on The Stock Exchange of Hong Kong Limited) to 31 December 2007.

### Total number of new vehicle sold by DCH in mainland China, Hong Kong and Macao

| Location \ Year | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Mainland China | **58,833** | 40,337 | 23,556 | 21,699 | 17,528 |
| Hong Kong | **9,214** | 7,526 | 12,273 | 10,836 | 8,945 |
| Macao | **1,594** | 1,083 | 1,485 | 1,535 | 847 |
| Total | **69,641** | 48,946 | 37,314 | 34,070 | 27,320 |

### Total number of 4S shops in mainland China

| At year end | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| 4S shops | **55** | 40 | 40 | 30 | 23 |

### Total number of motor vehicle showrooms in Hong Kong

| At year end | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Motor vehicle showrooms | **13** | 12 | 13 | 14 | 14 |

### Total number of DCH food retail outlets in Hong Kong

| At year end | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| DCH Food Mart | **60** | 59 | 57 | 50 | 51 |
| DCH Food Mart Deluxe | **19** | 13 | 12 | 5 | – |
| Total | **79** | 72 | 69 | 55 | 51 |

# HUMAN RESOURCES

As at 31 December 2010, the Group had a total of 13,877 employees, including 1,979 employees from our associates and jointly controlled entities.

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| DCH and its subsidiaries | | |
| Mainland China | **8,008** | 6,500 |
| Hong Kong | **3,563** | 3,366 |
| Other Locations | **327** | 283 |
| Associates and jointly controlled entities | **1,979** | 1,921 |
| Total | **13,877** | 12,070 |

In terms of geographic locations, there were 9,981 employees in mainland China, 3,569 employees in Hong Kong and 327 employees in other locations: Taiwan, Singapore, Japan and Canada.

## Human Resources Management

The Group is an equal opportunity employer, offering equal employment and advancement opportunities to all candidates and employees. Fair and consistent human resources policies and programs are also implemented. Furthermore, the Group upholds high standards of business ethics and personal conduct of its employees. The Code of Conduct is the behavioural guide published by the Group. It is updated regularly for timely corporate governance and legislative compliance purposes. All employees are regularly required to acknowledge understanding of and compliance with the Code of Conduct; our business units are also required on a semi-annual basis to report on their enforcement of and compliance with the Code.

## Remuneration

Remuneration is an important factor in employee motivation and retention. The Group reviews its remuneration schemes annually to ensure their competitiveness in attracting, retaining and motivating employees who have the relevant skills, knowledge and competencies to develop, support and sustain the continued success of our businesses.


Remuneration of executive directors and senior management of the Group is monitored by the Remuneration Committee. This committee comprises of three independent non-executive directors and one non-executive director. They exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management to align their remuneration with shareholders' interests.

## Training and Development

The Group continues its efforts in training and development to support the needs of the business and the employees. A wide variety of in-house and external training and development programs, which include company familiarisation, product, sales, customer services, language and compliance training programs, are arranged. The Group also actively encourages sharing of knowledge, skills and experience among employees of different business units and geographic locations through a range of learning activities in Hong Kong and in mainland China.

To prepare for future manpower needs, the Group has stepped up its efforts in internship, apprenticeship and traineeship programs to nurture new talents. A management traineeship program has also been organised to develop a group of all-round talents with the requisite business and managerial skills to assume a management career within the Group in the future.

Through these dedicated efforts in manpower development, the Group has earned recognition of the brilliant achievements this year. The Group has been honoured as the 'Manpower Developer 1st' under the Manpower Developer Award Scheme by the Employee Retraining Board. Furthermore, 13 sales professionals from Hong Kong and mainland China have garnered the "Distinguished Salesperson Award" and "Outstanding Young Salesperson Award" at the "42nd Distinguished Sales Award" presented by the Hong Kong Management Association. Among them, three were among the five finalists for the "Best Performance Award" in their respective group and one of them attained the "Best Performance Award" of the "Outstanding Young Salesperson Award" group.


## Employee Care

The Group emphasises building employee engagement, striving to enrich both their work and their personal lives. In addition to continuing its efforts in strengthening communication with the employees, the Group, through its Employee Wellness Committee, also organises various kinds of social and recreational activities regularly for employees and their families for their enjoyment and relaxation and promoting teambuilding and bonding.

# IN THE COMMUNITY

As a good corporate citizen, the Group spares no effort in fulfilling its social responsibilities, aspiring for a better community in a sustainable green environment. Towards this end, we have been participating in a wide range of charity projects and we have expanded the scale of our Corporate Social Responsibility (CSR) initiatives in the year under review.

Anti-poverty and elderly services as well as education are the major focus of the Group's contribution. We have continued our work by making donations and mobilising volunteer activities to help the needy in different locations throughout the reporting year.

## Voluntary Service

DCH has been sowing the seeds of 'caring' among both our staff and the community. In 2010, we have stepped up our efforts through the "Community Support Programme" and doubled the size of our volunteer team. Thanks to our kind-hearted colleagues and their kin, we took part in more voluntary community services for the elderly, underprivileged children, and people with intellectual disabilities. The number of voluntary service hours in Hong Kong exceeded 2,000, more than double that of last year.

The Group has recognised the contribution that staff volunteers have made to society and provided full support to them. Ten staff have been appointed as Caring Ambassadors in 2010 to encourage more engagement and involvement of staff in voluntary activities, and to further strengthen the 'caring' culture within the Group.

## Charity Donations

Apart from social services, DCH and its subsidiaries made donations in cash or in kind to different non-governmental organisations to support their charity work. In particular, as our business is closely connected to people's daily lives, we are able to use our expertise to contribute to the society. For instance, electrical appliances were donated to the elderly under the 'Home Environment Improvement Scheme for the Elderly' organised by the Social Welfare Department, free motor leasing service and healthy drinks were sponsored for Oxfam Trailwalker, and vehicle repair and maintenance services has been offered to the Life Education Activity Programme (LEAP) for over ten years. We have also donated food supplies to different charity organisations, such as the Food Bank of Kwun Tong Methodist Social Service Centre, a project that we have been supporting for four years.

In mainland China, we are committed to helping the people in need there, especially those who are living below the poverty line and recovering from disasters. In 2010, we have kicked off 'The Kindle Hopes-Sichuan Mobile Classroom' project with the Young Men's Christian Association (YMCA). Under this three-year programme, the vehicle, i.e. the mobile classroom, will run through the poor and remote mountainous villages in Sichuan to provide educational and emotional support to children and the elderly, as well as to train local women with skills that could help them make a living.


Our subsidiaries in Singapore and Japan were also enthusiastically devoted to charity work within their communities.

## Environmental Friendliness

The Group believes that protecting the environment is a crucial element to sustainable development and embraces the 4R Principle (Reduce, Reuse, Recycle and Replace) in our daily operations. In addition to the introduction of green measures in the office, we have joined the World Wide Fund for Nature (WWF) as a silver member in 2010 and fully supported WWF's conservation work. A conservation tour to Mai Po Nature Reserve was orgainsed for our staff and their families to promote the importance of environmental protection. We were awarded the 'Class of Excellence' certificate for 'Waste-wise' Label in the Hong Kong Awards for Environmental Excellence, showcasing our efforts in waste reduction. As a major vehicle distributor in Hong Kong, the Group also brought new electric vehicles models to the market, advocating green "driving" and reduction of emissions.

## Awards and Recognitions

With all these efforts devoted to CSR, the Group has earned appreciation from society and the general public. The recognition and encouraging achievements made in 2010 outlined below motivate us to do better in the next year, thus we resolve to continue to follow our ongoing CSR policies.

- Awarded the Caring Company logo for the ninth consecutive year by the Hong Kong Council of Social Service, signifying our continuous contribution to the community
- Earned the 'Gold Award' of the Corporate Contribution Programme 2010 / 2011 from the Community Chest of Hong Kong
- Won the 'Silver Certificate' for service hours accumulated in 2010 by the Social Welfare Department
- Won '1st Runner-up in Total Fund Raising (Corporate)' and '2nd Runner-up in Active Participation of Volunteers (Corporate)' in the Oxfam Rice Sale, attributable to the active participation of staff volunteers

# CORPORATE GOVERNANCE

## Corporate Governance Practices

Dah Chong Hong Holdings Limited (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 important to maintain and promote investor confidence, protect the interests of shareholders and enhance shareholder value. 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.

Throughout the year 2010, the Company applied the principles of and complied with all the code provisions of the Code on 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"). The manner in which the principles are applied is explained in the following parts of the Corporate Governance Report.

## Board of Directors

The Board currently comprises eight executive and six non-executive directors of whom three are independent (the biographies of the directors are set out on pages 48 to 50). Non-executive directors and independent non-executive directors accounted for 43% and 21% of the board composition respectively.

Under the Company's New Articles of Association, every director, including the non-executive directors, is subject to retirement by rotation at least once every three years and their re-election is subject to a vote of the Company's shareholders. This means that the specific term of appointment of a director cannot exceed three years.

The Board determines the overall strategies, monitors and controls the operating and financial performance and sets appropriate policies to manage risks in pursuit of the strategic objectives of the Company and its subsidiaries (the "Group"). 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 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, 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 meets regularly to review the financial and operating performance of the Group and its business units, and approves future strategy. The Company had held four full board meetings in 2010. Individual attendance of each director at the board meetings, the Audit Committee meetings and the Remuneration Committee meetings during the year 2010 is set out below:

| | Attendance / Number of meetings in 2010 | | |
|---|---|---|---|
| Name of Director | Board | Audit Committee | Remuneration Committee |
| **Executive Directors** | | | |
| Hui Ying Bun – *Chairman* | 4/4 | | |
| Chu Hon Fai – *Deputy Chairman* | 4/4 | | |
| Yip Moon Tong – *Chief Executive Officer* | 4/4 | | |
| Mak Kwing Tim | 4/4 | | |
| Lau Sei Keung | 4/4 | | |
| Tsoi Tai Kwan, Arthur | 4/4 | | |
| Glenn Robert Sturrock Smith | 4/4 | | |
| Wai King Fai, Francis | 4/4 | | |
| **Non-executive Directors** | | | |
| Kwok Man Leung | 3/4 | | 1/1 |
| Yin Ke | 4/4 | | |
| Fei Yiping | 4/4 | | |
| **Independent Non-executive Directors** | | | |
| Cheung Kin Piu, Valiant *(Chairman of the Audit Committee)* | 4/4 | 3/3 | 1/1 |
| Hsu Hsung, Adolf *(Chairman of the Remuneration Committee)* | 3/4 | 3/3 | 1/1 |
| Yeung Yue Man | 4/4 | 3/3 | 1/1 |

To implement the strategies and plans adopted by the Board effectively, executive directors and senior managers meet on a regular basis to review the performance of the businesses of the Group, co-ordinate overall resources and make financial and operational decisions.

## Non-competition Undertaking

CITIC Pacific Limited ("CITIC Pacific") has executed a non-competition undertaking dated 28 September 2007 in favour of the Company to the effect that at any time during which the shares of the Company are listed on The Stock Exchange of Hong Kong Limited and CITIC Pacific and / or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific will not engage and will procure its subsidiaries (excluding CITIC Telecom International Holdings Limited (formerly known as CITIC 1616 Holdings Limited) ("CITIC Telecom"), 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 to invest in any independent third party's business engaging in activities carried out by the Group, CITIC Pacific 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 has reviewed the business of its group (excluding CITIC Telecom, the Company and their respective subsidiaries) and advised that during the year 2010, their business did not compete with the Group and there was no opportunity made available to CITIC Pacific to invest in any independent third party which was engaged in the same business as that of the Group. CITIC Pacific has 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 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 primarily 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.

## Remuneration of Directors

The Remuneration Committee, established in September 2007, has clear terms of reference and is accountable to the Board. The terms of reference of the Remuneration Committee can be found in the Group's website. The principal role and functions 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 shareholders' interests.

During the year 2010, the Remuneration Committee held one meeting to review the remuneration policies and approve the salary and bonus of the executive directors and senior management. No executive director has taken part in any discussion about his own remuneration. Apart from this meeting, the Remuneration Committee approved the granting of share options under the Company's Post-IPO Share Option Scheme in July 2010. The committee members consist of all the independent non-executive directors and a non-executive director of the Company. Its members comprise:

**Independent Non-executive Directors**
Hsu Hsung, Adolf – *Chairman*
Cheung Kin Piu, Valiant
Yeung Yue Man

**Non-executive Director**
Kwok Man Leung

For the year ended 31 December 2010, the fee for each individual director sitting on the Board was HK$120,000 per annum. Additional fees for the directors serving in the Audit Committee and the Remuneration Committee were 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 38 to 39. Directors' emoluments and retirement benefits are disclosed on pages 112 to 113 and pages 135 to 136, respectively. Details of the Pre-IPO Option Scheme and the Post-IPO Option Scheme and the movement of the share options during the year 2010 are disclosed on pages 67 to 71.

## Nomination of Directors

There is no nomination committee of the Board for the time being. Candidates to be nominated as directors of the Company are experienced and high caliber individuals. Appointment of new directors will be put to the Board or the shareholders of the Company in general meeting for approval. Under the Company's New Articles of Association, any directors appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be subject to re-election by its shareholders. Apart from this, every director, including the non-executive directors, 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. Messrs Wai King Fai, Francis, Yin Ke and Fei Yiping were appointed by the Board as directors of the Company with effect from 1 January 2010 and were re-elected as directors by the shareholders of the Company at the annual general meeting of the Company held on 12 May 2010.

## Auditors' Remuneration

KPMG have been the Company's external auditors for over 30 years. For the year ended 31 December 2010, the fees charged to the financial statements of the Group in respect of KPMG's statutory audit amounted to approximately HK$16.9 million (2009: HK$15.9 million). In addition, approximately HK$1.4 million (2009: HK$0.7 million) was charged for other services, including tax services and audit of retirement plans. The fees of recurring audit services of subsidiaries performed by other auditors amounted to approximately HK$3.6 million (2009: HK$3.4 million) and the fees of provision of other services was approximately HK$0.5 million (2009: HK$1.7 million).

## Audit Committee

The Board has established the Audit Committee since September 2007. The Audit Committee has clear terms of reference and is accountable to the Board. The terms of reference of the Audit Committee can be found in the Group's website. The Audit Committee 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 of the Company. Its members comprise:

Cheung Kin Piu, Valiant – *Chairman*
Hsu Hsung, Adolf
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 the Chief Financial Officer of the Group and the auditors, both internal and external.

During the year 2010, three committee meetings were held. The Audit Committee discussed the nature and scope of the audit; reviewed the internal audit plan, findings and management's response; considered the external auditors' projected audit fees; reviewed the adequacy of staffing of the accounting and financial reporting function; reviewed the interim and annual financial statements, particularly judgmental areas, before submission to the Board. The Audit Committee recommended the Board to adopt the interim and annual reports for 2010.

Since the listing of the Company in October 2007, the Company has engaged a qualified accountant who is in charge of the overall management of the accounting and financial management functions of the Group. The current position is occupied by Mr Wai King Fai, Francis acting as an executive director of the Company and the Chief Financial Officer of the Group, whose biographical details are set out in the Directors section on page 49.

## Internal Audit

During the year 2010, the Group continued to engage the group internal audit department (the "IA") of CITIC Pacific to perform internal audits for the Group. IA carries 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 each time it meets.

## 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 unauthorised 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 2010, the Board, through the Audit Committee, 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 various business units and subsidiaries are required to assess the risks and the internal controls with reference to the five components of 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 accordance with the Code requirements, the Audit Committee also reviewed and was satisfied with the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget for the year ended 31 December 2010.

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 has adopted a "Code of Conduct" defining the ethical standards expected of all employees. Training courses on the "Code of Conduct" are held regularly for all employees. The Audit Committee receives a report on the compliance of the "Code of Conduct" every year.

## Notifiable Transactions, Connected Transactions and Interim and Annual Reports

During the year 2010, the Company issued announcements in respect of "notifiable transactions" and "connected transactions" which can be viewed on the Group's website. The annual and interim reports of the Company can also be viewed on the Group's website.

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. All directors of the Company have fully complied with the required standard set out in the Model Code throughout the year 2010.

## Communication with Shareholders

The Company's annual general meeting is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Group's performance. Separate resolutions will be proposed for each substantially separate issue at the annual general meeting.

In accordance with the Listing Rules, voting by poll is mandatory at all general meetings and the poll results will be posted on the websites of "HKExnews" and the Group respectively on the same day of the general meeting.

## 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 Group can be found in the Group's website including descriptions of each business and the interim and annual reports of the Company.

## Investor Relations

The Company proactively promotes investor relations and communications by setting up regular meetings between the Company's management and institutional shareholders and analysts.

The Company 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 all cases, great care has been taken to ensure that no price sensitive information is disclosed selectively.

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

The Company values feedback from the shareholders regarding its effort to promote transparency and foster investor relationships. Comments and suggestions are welcomed and can be addressed to the Investor Relations Department of the Company by post or by email.

## Financial Reporting

The directors of the Company acknowledge their responsibility for preparing the financial statements which give a true and fair view of the Group's affairs and of its results and cash flows for the year 2010 in accordance with Hong Kong Financial Reporting Standards, the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. The directors of the Company 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. The adoption of new or amended accounting standards that became effective during the year has not had a significant impact on the Group's results of operations and financial position except for those disclosed in note 1(b)(iii) to the financial statements on page 89.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on page 77.

# DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Hui Ying Bun** *Chairman*
Aged 64, 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 rationalisation of the Company to cope with the growth of the businesses.

**Chu Hon Fai** *Deputy Chairman*
Aged 65, 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 58, 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 the Hong Kong Government for 16 years. After leaving the 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 62, a Director since July 2007. Mr Mak is the Executive-in-charge of a number of distributorship business of renowned motor brands such as Acura, Audi, Bentley, Honda, MAN and UD Nissan Diesel in Hong Kong. Mr Mak is also responsible for managing the distributorship business 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 57, a Director since July 2007. Mr Lau is the Executive-in-charge of the motor dealership development and operation in the PRC, currently managing over 50 motor dealerships in the country, both passenger car and commercial vehicle. Mr Lau is also responsible for managing the Isuzu distributorship business in the PRC, Hong Kong and Macao. 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 62, 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 58, 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", a holding company of the Company listed on the Hong Kong Stock Exchange) 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. In total, Mr Smith has over 30 years experience in the marketing and distribution of fast moving consumer goods.

**Wai King Fai, Francis**

Aged 51, a Director since January 2010. Mr Wai is the Chief Financial Officer of the Group and is primarily responsible for the overall management of the accounting and financial management functions of the Group. He joined the Company in June 2008. Mr Wai is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr Wai has over 25 years of experience in the finance and accounting profession before joining the Company. Between 1992 to 2006, Mr Wai was appointed as the Chief Financial Officer of Hong Kong Dragon Airlines Limited and prior to that Mr Wai worked for Cathay Pacific Airways Limited.

## Non-executive Directors

**Kwok Man Leung**

Aged 42, a Director since July 2007. Mr Kwok is a Chartered Financial Analyst. He is an executive director of CITIC Pacific, a director of CITIC Pacific Special Steel Co., Ltd., CITIC Guoan Co., Ltd., New Hong Kong Tunnel Company Limited and certain member companies of CITIC Pacific involved in special steel. He was formerly a non-executive director of CITIC Telecom International Holdings Limited (formerly known as CITIC 1616 Holdings Limited) ("CITIC Telecom", a fellow subsidiary of the Company listed on the Hong Kong Stock Exchange).

**Yin Ke**

Aged 47, a Director since January 2010. Mr Yin is the chief executive officer, executive director and vice chairman of CITIC Securities International Company Limited, a director of CITIC Securities Co., Ltd. (listed on the Shanghai Stock Exchange), and a non-executive director of CITIC Pacific and CITIC Dameng Holdings Limited (listed on the Hong Kong Stock Exchange). Mr Yin is also actively involved in various professional associations including the Securities Association of China and the Securities Association of Shenzhen. Mr Yin was an executive secretary to the chief executive officer of the Shenzhen Stock Exchange when it was first established. He was formerly a director of ACT360 Solutions Limited (listed on the Toronto Stock Exchange) and CITIC Capital Holdings Limited, and a non-executive director of Zhongxing Shenyang Commercial Building Group Company Limited (listed on the Shenzhen Stock Exchange). He had previously served as the deputy general manager of Shenzhen Investment Fund Management Limited, a director of CCB Principal Asset Management Company Limited, an executive director of Jun An Securities Limited, an executive director of Guotai Junan Securities Company Limited, an executive director and president of China United Securities Limited.

**Fei Yiping**

Aged 47, a Director since January 2010. Mr Fei is the Group Financial Controller of CITIC Pacific, a director and the Chief Financial Officer of CITIC Hong Kong (Holdings) Limited, and a non-executive director of CITIC Telecom. He has over 10 years experience in accounting and financial management before joining the Company. He has been with CITIC Group (the ultimate holding company of the Company) since 1991. Between 2001 and 2008, Mr Fei first acted as Treasurer and Director of CitiSteel USA, Inc. and then as Vice President of CITIC USA Holdings, Inc. and Chief Representative of CITIC Group in New York. When he returned to China in 2008, he became Deputy Director-General of the Finance Department of CITIC Group.

## Independent Non-executive Directors

**Cheung Kin Piu, Valiant**

Aged 65, 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 March 2001. Mr Cheung has extensive experience in assurance and corporate finance work. Mr Cheung is currently an independent non-executive director of Pacific Century Premium Developments Limited, The Bank of East Asia, Limited and Vitasoy International Holdings Limited, all listed on the Hong Kong Stock Exchange. He is also 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. He was formerly an independent non-executive director of Dream International Limited and Wing Shan International Limited (now known as Winteam Pharmaceutical Group Limited), both listed on the Hong Kong Stock Exchange.

**Hsu Hsung, Adolf**

Aged 72, a Director since September 2007. Mr Hsu also serves as the Chairman of the Remuneration Committee of the Company. Mr Hsu spent some 40 years with the Hong Kong Government and retired in 1998 as Director of Regional Services, in the rank of Administrative Officer, Staff Grade A. Mr Hsu joined New World First Bus Services Limited as managing director between 1 April 1998 and 31 January 2004. He was also managing director of New World First Holdings Limited, the holding company that wholly owns, inter alia, New World First Ferry Services Limited, New World First Ferry (Macau) Services Limited, and New World First Bus Service (China) Limited. He was formerly an executive director of Kwoon Chung Bus Holdings Limited and an independent non-executive director of Bel Global Resources Holdings Limited, both listed on the Hong Kong Stock Exchange, and a non-executive director of New World Services Limited (now known as NWS Service Management Limited).

**Yeung Yue Man**

Aged 72, a Director since September 2007. Professor Yeung is Emeritus Professor of Geography 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 Railway. He served as Chairman of the Land and Building Advisory Committee and a member of the Commission on Strategic Development of Hong Kong Government, and is presently Chairman of the Pan-Pearl River Delta Panel under the Central Policy Unit.

## Senior Management

**Kuk Tai Wai, David**

Aged 59, is the Managing Director of DCH Logistics Company Limited and is primarily responsible for the 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 over 30 years of experience in logistics operations.

**Wong Siu Fat, Ringo**

Aged 48, is the Director, Manufacturing and is primarily responsible for managing the electrical appliances manufacturing facilities in Shunde. He joined the Group in October 2008. Mr Wong has more than 20 years experience in marketing and sales as well as general management in a manufacturing environment.

**Got Chong Key, Clevin**

Aged 52, is the Managing Director of Premium Motors Limited and is primarily responsible for the management of the Audi distributorship. Mr Got joined the Group in January 1999. He has more than 20 years experience in the motor industry.

**Lee Tak Wah**

Aged 46, is the Managing Director of Dah Chong Hong (Motor Service Centre) Limited and is primarily responsible for the management of the motor aftersale services, motor related business as well as the Nissan distributorship. Mr Lee joined the Group in June 1999. He has more than 20 years experience in the motor industry.

**Ho Ming Kei, Wayne**

Aged 50, 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 20 years of experience in corporate and business development operations.

**Wong Ming Yin**

Aged 49, is the Director and General Manager of Dah Chong Hong Motors (China) Limited and is primarily responsible for the development and management of our city dealerships for motor vehicles in China. Mr Wong joined the Group in July 1998 and has more than 25 years experience in the motor industry.

**Hui Kwong Lok**

Aged 54, 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 over 30 years of experience in trading, distribution and retail of electrical appliances operations.

**Yan Mengying**

Aged 62, is the Managing Director of Dah Chong Hong (China) Limited based in Shanghai, China and is primarily responsible for the 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 over 40 years of experience in planning and business management.

**Wong Hoi Ming, Alan**

Aged 57, 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 human resources and administration management.

**Chau Wai Man**

Aged 56, 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 around 30 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 2010.

## 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 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 Greater China.

## Subsidiary Companies

The names of the principal subsidiaries, their places of incorporation / establishment / operation, particulars of their share capital and principal activities are set out in note 39 to the financial statements.

## Dividends

The Directors declared an interim dividend of 10.68 HK cents (2009: 4.51 HK cents) per share in respect of the year ended 31 December 2010 which was paid on 21 September 2010. The Directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the payment of a final dividend of 12.77 HK cents (2009: 11.29 HK cents) per share in respect of the year ended 31 December 2010 payable on 19 May 2011 to shareholders on the Register of Members at the close of business on 11 May 2011.

## Financial Statements

The profit of the Group for the year ended 31 December 2010 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 78 to 159.

## Transfer to Reserves

The amounts and particulars of transfer to and from reserves during the year are set out in the Consolidated Statement of Changes in Equity.

## Charitable Donations

Charitable donations made by the Group during the year amounted to HK$2.4 million (2009: HK$0.9 million).

## Fixed Assets

Details of the movements of fixed assets during the year are set out in note 14 to the financial statements.

## Major Customers and Suppliers

During the year, the aggregate percentage of sales attributable to the Group's five largest customers are less than 30% of total turnover. The information in respect of the Group's total purchases attributable to the major suppliers during the year is as follows:

| | Percentage of the Group's Total Purchases | |
|---|---|---|
| | **2010** | 2009 |
| The largest supplier | **17.1%** | 12.7% |
| Five largest suppliers in aggregate | **48.5%** | 41.7% |

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 suppliers.

## Borrowings

Particulars of borrowings of the Company and the Group as at 31 December 2010 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
Mr Mak Kwing Tim
Mr Lau Sei Keung
Mr Tsoi Tai Kwan, Arthur
Mr Glenn Robert Sturrock Smith
Mr Wai King Fai, Francis (appointed with effect from 1 January 2010)
Mr Kwok Man Leung
Mr Yin Ke (appointed with effect from 1 January 2010)
Mr Fei Yiping (appointed with effect from 1 January 2010)
Mr Cheung Kin Piu, Valiant
Mr Hsu Hsung, Adolf
Professor Yeung Yue Man

Biographical details of the Directors of the Company are set out on pages 48 to 50 of the 2010 Annual Report of the Company.

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 (the "Listing Rules") and that the Company still considers such directors to be independent.

In accordance with Article 104(A) of the New Articles of Association of the Company, Messrs Yip Moon Tong, Glenn Robert Sturrock Smith, Kwok Man Leung and Hsu Hsung, Adolf and Professor Yeung Yue Man shall retire by rotation from the Board at the forthcoming annual general meeting of the Company and, all being eligible, offer themselves for re-election.

## Contracts of Significance with Controlling Shareholders

The Company entered into an administrative services agreement with CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company) 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 as commenced on 1 January 2007. The agreement shall continue thereafter in force from year to year but may be terminated if CITIC Pacific shall hold less than 30% of the shares of the Company or by either party giving six 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 and calculated in proportion to their departmental charges. Charges paid by the Company for the above services for the year ended 31 December 2010 were HK$7.9 million (2009: HK$6.9 million).

The Company also entered into a trademark licence agreement on 28 September 2007 with CITIC Pacific, pursuant to which CITIC Pacific 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 months' written advance notice. No consideration is payable by the Company to CITIC Pacific for the use of the trademark.

CITIC Pacific has executed a non-competition undertaking dated 28 September 2007 in favour of the Company to the effect that at any time during which the shares of the Company are listed on The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange") and CITIC Pacific and / or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific will not engage and will procure its subsidiaries (excluding CITIC Telecom International Holdings Limited (formerly known as 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 to invest in any independent third party's business engaging in activities carried out by the Group, CITIC Pacific 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 has executed an indemnity dated 28 September 2007 in favour of the Group under which CITIC Pacific 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 claims, defects in titles of properties, leakage of assets resulting from the contractual arrangements 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 licences and permits. No claim has been made by the Group against CITIC Pacific pursuant to the indemnity since 28 September 2007.

Apart from the above and the transactions as mentioned in items 1 to 3 of the section of "Continuing Connected Transactions", none of the Company or any of its subsidiaries has entered into any other contract of significance with the Company's controlling shareholders or their subsidiaries which were subsisting during the financial year ended 31 December 2010.

## 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.

## Related Party Transactions

The Group has entered into certain transactions in the ordinary course of business and on normal commercial terms which were "Material related party transactions", details of which are set out in note 36 to the financial statements. Some of these transactions also constitute "Continuing Connected Transactions" or "Connected Transactions" under the Listing Rules as summarised below.

## Connected Transactions

The Group has entered into the following non-exempt connected transactions which are subject to the reporting and announcement requirements only under Chapter 14A of the Listing Rules.

1. On 28 January 2010, Boton Investments Limited ("Boton", a wholly-owned subsidiary of the Company), Denker Group Development Limited ("Denker"), the Company and Mr Mak Hing Lung ("Mr Mak") entered into a financial assistance agreement (the "Shanghai JV Shareholders' Financial Assistance Agreement") for the purpose of providing additional funding to the Shanghai Project. The Shanghai Project is to develop and roll out the business operations of 上海駿佳市場營銷策劃有限公司 (Shanghai Junjia Marketing Company Limited) (now known as 上海駿佳雷克薩斯汽車銷售服務有限公司 (Shanghai Junjia Lexus Motors Sale and Service Limited)) ("Shanghai Junjia") which provides vehicle sales, spare parts, services and conducts customer survey for the manufacturer or supplier in respect of the "Lexus" brand in Shanghai in the People's Republic of China ("PRC") through Kamfield International Limited ("Kamfield", a non wholly-owned subsidiary of the Company) and Shanghai Junjia (together, the "Shanghai JV Group"). Pursuant to the Shanghai JV Shareholders' Financial Assistance Agreement, among other things, Boton and Denker agreed to provide and / or procure financial assistance for the benefit of the Shanghai Project of up to a maximum amount of RMB125,000,000 in the forms as stipulated therein.

   On 28 January 2010, Brilliant Way International Limited ("Brilliant Way", a wholly-owned subsidiary of the Company), Denker Group Limited ("DGL"), the Company and Mr Mak entered into a financial assistance agreement (the "Ningbo JV Shareholders' Financial Assistance Agreement") for the purpose of providing additional funding to the Ningbo Project. The Ningbo Project is to develop and roll out the business operations of 寧波慈溪駿佳雷克薩斯汽車銷售服務有限公司 (Ningbo Cixi Junjia Lexus Motors Sale and Service Limited) ("Cixi Junjia") which provides vehicle sales, spare parts, services and conducts customer survey for the manufacturer or supplier in respect of the "Lexus" brand in Ningbo in the PRC through Powerful Maker Limited ("Powerful Maker", a non wholly-owned subsidiary of the Company) and Cixi Junjia (together, the "Ningbo JV Group"). Pursuant to the Ningbo JV Shareholders' Financial Assistance Agreement, among other things, Brilliant Way and DGL agreed to provide and / or procure financial assistance for the benefit of the Ningbo Project of up to a maximum amount of RMB120,000,000 in the forms as stipulated therein.

Denker, DGL, Kamfield and Powerful Maker were connected persons of the Company when the above transactions were entered into. Shanghai Junjia and Cixi Junjia are wholly-owned by Kamfield and Powerful Maker, respectively. Therefore, the Shanghai JV Group and the Ningbo JV Group are associates of Mr Mak and thus connected persons of the Company. Thus, the entering into of the Shanghai JV Shareholders' Financial Assistance Agreement and the Ningbo JV Shareholders' Financial Assistance Agreement constituted connected transactions for the Company under the Listing Rules.

2. On 25 February 2010, DCH Food Industries Limited (a wholly-owned subsidiary of the Company) entered into an agreement with Perdue Farms Incorporated ("Perdue", a company incorporated under the laws of the United States of America) to acquire the remaining 40% interest in Regal Heights Limited ("Regal Heights", a non-wholly owned subsidiary of the Company) which then held 76.77% interest in 上海大昌江南鳳有限公司 (Shanghai DCH Jiangnanfeng Co., Ltd.) ("Jiangnanfeng", a Shanghai-Hong Kong equity joint venture duly organised and existing under the laws of the PRC) (the "Acquisition"). After the acquisition of the remaining 40% interest in Regal Heights, the Group has a total attributable interest of 76.77% in Jiangnanfeng and intends to develop the land site held by Jiangnanfeng in Shanghai and develop the business of Jiangnanfeng into an upstream fast moving consumer goods / food processing base. On completion of the Acquisition, Regal Heights has become a wholly-owned subsidiary of the Company.

   As Perdue was a substantial shareholder of Regal Heights at the time of the transaction, Perdue was a connected person of the Company and the Acquisition constituted a connected transaction for the Company under the Listing Rules.

## Continuing Connected Transactions

The Group has entered into the following continuing connected transactions which constitute non-exempt continuing connected transactions subject to the announcement, reporting and annual review requirements only under Chapter 14A of the Listing Rules.

1. **Leasing of premises for operations of the Group**

   During the year, there existed the following tenancy agreements (the "Tenancy Agreements") with the respective landlords, all being subsidiaries of CITIC Pacific, for leasing the premises necessary for the operations of its business in Hong Kong and the PRC:

| Agreement Date | Location | Monthly Rental | Term |
|---|---|---|---|
| Tenancies in Hong Kong: | | | |
| 1.4.2009 | 7/F-12/F and 16/F, CITIC Telecom Tower (formerly known as Broadway Centre), 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong (Note) | HK$524,860.00 | 1.6.2009 – 31.5.2012 |
| 1.4.2009 | 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 | 1.6.2009 – 31.5.2012 |
| 1.4.2009 | Factory Unit A (also known as Factory Unit 1) on 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 | 1.6.2009 – 31.5.2012 |
| 1.4.2009 | G/F, Portion of 1/F, Units 1A, 1B and 1C on 1/F, 2/F, 3/F, 7/F (storeroom) and 8/F of No. 111 Lee Nam Road, Ap Lei Chau, Hong Kong | HK$685,995.85 | 1.6.2009 – 31.5.2012 |
| 1.4.2009 | DCH Building, No. 20 Kai Cheung Road, Kowloon, Hong Kong | HK$4,902,959.50 | 1.6.2009 - 31.5.2012 |
| Tenancy in the PRC: | | | |
| 2.1.2009 | Units 1102–1105, 11th Floor, CITIC Square, 1168 Nanjing West Road, Shanghai, the PRC | RMB217,357.04 | 15.1.2009 – 14.1.2012 |

Note: The tenancy agreement has been supplemented by an agreement dated 30 December 2009 which sets out the monthly rental in respect of 7th to 12th Floors of CITIC Telecom Tower (formerly known as Broadway Centre) of HK$449,880. In respect of the tenancy for 16th Floor of CITIC Telecom Tower, this was surrendered and replaced by a tenancy with another subsidiary of CITIC Pacific for a term from 31 December 2009 to 31 May 2011 at a monthly rental of HK$74,980.

The annual cap (including rentals, management fees and other outgoings (other than those which are collected by relevant landlords from the tenant for payments to independent third parties)) payable in respect of the tenancies in Hong Kong of the Tenancy Agreements for each of the financial years ended 31 December 2010 and ending 31 December 2011 and 2012 is HK$92.0 million, HK$92.2 million and HK$38.6 million, respectively. The aggregate amount paid by the Group to the relevant landlords in respect of the tenancies in Hong Kong of the Tenancy Agreements during the year was HK$91.4 million which did not exceed the capped amount.

The annual cap on the rental payable in respect of the tenancy in the PRC of the Tenancy Agreements for each of the financial years ended 31 December 2010 and ending 31 December 2011 is expected not to exceed RMB2.609 million. The aggregate amount paid by the Group to the relevant landlord in respect of the tenancy in the PRC of the Tenancy Agreements during the year was RMB2.6 million which did not exceed the capped amount.

**2. Pre-existing tenancy agreement between Dah Chong Hong, Limited ("DCHL") and CITIC Bank International Limited ("CITIC Bank") (formerly known as CITIC Ka Wah Bank Limited)**

By the tenancy agreement made between DCHL as landlord and CITIC Bank as tenant on 18 December 2008, DCHL leased Shop No. G7, Ground Floor, Westlands Gardens, 1025–1037 King's Road, Quarry Bay, Hong Kong to CITIC Bank.

DCHL is a wholly-owned subsidiary of the Company. CITIC Bank is a non wholly-owned subsidiary of CITIC Group. CITIC Group has become a majority shareholder of CITIC Pacific, a controlling shareholder of the Company, since 24 December 2008, rendering CITIC Group as a substantial shareholder and a connected person of the Company. By virtue of being an associate of CITIC Group, CITIC Bank is a connected person of the Company.

Therefore, the above pre-existing tenancy agreement with a term of three years commencing from 15 February 2009 to 14 February 2012 at a rent of HK$268,000 per calendar month constituted a continuing connected transaction for the Company under the Listing Rules. The annual cap for the financial year ended 31 December 2010 and for each of the financial years ending 31 December 2011 and 2012 is HK$3.216 million.

The aggregate rental received by DCHL from CITIC Bank under the above pre-existing tenancy agreement during the year was HK$3.216 million which did not exceed the capped amount.

3. **The guarantee arrangement in respect of a revolving bank acceptance draft facility of up to RMB40,000,000 ("the Bank Acceptance Draft Facility") granted by 中信銀行股份有限公司 (China CITIC Bank Corporation Limited) ("China CITIC Bank") to 廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited) ("Guangzhou Guangbao")**

On 30 December 2009, 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) ("Zhanjiang Junhua"), a company accounted for as a wholly-owned subsidiary of the Company, provided a back-to-back indemnity in favour of Mr Mak for an amount of up to RMB20,000,000 (approximately HK$22,800,000) (the "Indemnity") in respect of 50% of Mr Mak's exposure under a guarantee dated 29 December 2009 provided by Mr Mak in favour of China CITIC Bank ("Mr Mak's Guarantee") to secure the Bank Acceptance Draft Facility granted by China CITIC Bank to Guangzhou Guangbao, a company accounted for as a non wholly-owned subsidiary of the Company, which represents 100% of the maximum amount. The Bank Acceptance Draft Facility has a term of one year commencing on 1 January 2010 and expiring on 31 December 2010, under which China CITIC Bank will, on request, issue bank acceptance drafts in favour of FAW Toyota Motor Sales Co., Ltd ("FAW Toyota") for the purchase by Guangzhou Guangbao of motor vehicles in its ordinary and usual course of business. Guangzhou Guangbao was required to maintain a cash balance of up to 20% of the maximum amount of the Bank Acceptance Draft Facility in a specified repayment account. The bank acceptance drafts were repaid through the repayment account after the motor vehicles have been sold. The Indemnity provided by Zhanjiang Junhua will expire concurrently with Mr Mak's Guarantee, that is, two years from the date payment is made under the last bank acceptance draft issued by China CITIC Bank under the Bank Acceptance Draft Facility.

Mr Mak is a substantial shareholder and director of various non wholly-owned subsidiaries of the Company (including Guangzhou Guangbao). Therefore, Guangzhou Guangbao is a connected person of the Company. China CITIC Bank is a non wholly-owned subsidiary of CITIC Group, the ultimate holding company of CITIC Pacific, which in turn is a substantial shareholder of the Company. China CITIC Bank is also a connected person of the Company.

The guarantee arrangement under the Bank Acceptance Draft Facility constituted a continuing connected transaction for the Company.

On 23 December 2010, Guangzhou Guangbao agreed to provide a pledge of motor vehicles in favour of China CITIC Bank to secure the granting of a revolving facility of up to RMB40,000,000 (approximately HK$46,800,000) (the "Renewed Bank Acceptance Draft Facility") in its favour. The Renewed Bank Acceptance Draft Facility has a term of one year from 1 January 2011 to 31 December 2011, under which China CITIC Bank will, on request, issue bank acceptance drafts in favour of FAW Toyota for the purchase by Guangzhou Guangbao of motor vehicles in its ordinary and usual course of business. Guangzhou Guangbao will also be required to maintain a cash balance of up to 20% of the maximum amount of the Renewed Bank Acceptance Draft Facility in a specified repayment account held with China CITIC Bank. The bank acceptance drafts will be repaid through the repayment account after the motor vehicles have been sold. Delight Star Enterprises Limited, a wholly-owned subsidiary of the Company, has provided a back-to-back indemnity in favour of Mr Mak to cover 50% of Mr Mak's exposure under a guarantee provided by Mr Mak in favour of China CITIC Bank, which represents 100% of the maximum amount of the Renewed Bank Acceptance Draft Facility.

As above mentioned, China CITIC Bank is a connected person of the Company. Therefore, the Renewed Bank Acceptance Draft Facility constituted a continuing connected transaction for the Company.

**4. Cross-sales of vehicles between (i) each of 廣州駿佳凌志汽車銷售服務有限公司 (Guangzhou Junjia Lexus Motors Sale and Service Limited) ("GZ Junjia"), 寧波慈溪駿佳雷克薩斯汽車銷售服務有限公司 (Ningbo Cixi Junjia Lexus Motors Sale and Service Limited) ("Cixi Junjia") and 上海駿佳雷克薩斯汽車銷售服務有限公司 (Shanghai Junjia Lexus Motors Sale and Service Limited) ("SH Junjia") and (ii) 佛山市駿領雷克薩斯汽車有限公司 (Foshan Junling Lexus Motors Limited) ("FS Junling")**

On 18 May 2010, GZ Junjia, Cixi Junjia, SH Junjia (companies accounted for as non-wholly owned subsidiaries of the Company) and FS Junling (collectively, "the Dealers"), all being vehicle dealers of a common motor vehicle manufacturer ("Lexus"), entered into inventory cross-sales agreements with one another to facilitate the on-sale of vehicles to one another's customers from time to time during the respective term of the agreements.

***(a) Inventory cross-sales agreement entered into between GZ Junjia and FS Junling***

The agreement has a term of three years from 1 January 2010 to 31 December 2012 with (i) the annual cap for sales of vehicles by GZ Junjia to FS Junling for each of the financial years ended 31 December 2010 and ending 31 December 2011 and 2012 to be RMB50,000,000 respectively and (ii) the annual cap for purchase of vehicles by GZ Junjia from FS Junling for each of the financial years ended 31 December 2010 and ending 31 December 2011 and 2012 to be RMB50,000,000 respectively. This inventory cross-sales agreement shall supersede the inventory cross-sales agreement dated 29 June 2009 entered into between GZ Junjia and FS Junling (which ceased and determined with effect from 18 May 2010) and disclosed in the Company's announcement dated 29 June 2009. The aggregate amounts received by GZ Junjia from FS Junling in respect of sales of vehicles by GZ Junjia to FS Junling during the year was RMB4,752,137 which did not exceed the respective capped amount. GZ Junjia and FS Junling had not carried out any transaction in respect of purchase of vehicles by GZ Junjia from FS Junling during the year.

***(b) Inventory cross-sales agreement entered into between Cixi Junjia and FS Junling***

The agreement has a term of two years and nine months from 1 April 2010 to 31 December 2012 with (i) the annual cap for sales of vehicles by Cixi Junjia to FS Junling for the nine-month period ended 31 December 2010, and each of the financial years ending 31 December 2011 and 2012 to be RMB50,000,000 respectively and (ii) the annual cap for purchase of vehicles by Cixi Junjia from FS Junling for the nine-month period ended 31 December 2010, and each of the financial years ending 31 December 2011 and 2012 to be RMB50,000,000 respectively. The aggregate amounts received by Cixi Junjia from FS Junling in respect of sales of vehicles by Cixi Junjia to FS Junling during the year was RMB11,602,735 and the aggregate amounts paid by Cixi Junjia to FS Junling in respect of purchase of vehicles by Cixi Junjia from FS Junling during the year was RMB299,145, both of which did not exceed the respective capped amounts.

***(c) Inventory cross-sales agreement entered into between SH Junjia and FS Junling***

The agreement has a term of two years and eight months from 1 May 2010 to 31 December 2012 with (i) the annual cap for sales of vehicles by SH Junjia to FS Junling for the eight-month period ended 31 December 2010, and each of the financial years ending 31 December 2011 and 2012 to be RMB50,000,000 respectively and (ii) the annual cap for purchase of vehicles by SH Junjia from FS Junling for the eight-month period ended 31 December 2010, and each of the financial years ending 31 December 2011 and 2012 to be RMB50,000,000 respectively. During the year, SH Junjia and FS Junling had not carried out any transaction contemplated under the agreement.

The Dealers are associates of a common connected person, namely Mr Mak. Mr Mak is a substantial shareholder and director of various non-wholly owned subsidiaries of the Company. As such, the Dealers are connected persons of the Company and the abovementioned transactions of cross-sales of vehicles constituted continuing connected transactions of the Company. Please also refer to the joint announcement of the Company and CITIC Pacific of 29 December 2010.

## 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 non-exempt continuing connected transactions (the "Transactions") and are of the opinion that the Transactions have been entered into:

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

(b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

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

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 57 to 60 of the Annual Report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

## 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 persons which have the legal capacity under the regulation to be shareholders (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 the PRC law, the equity interests in the OPCOs at nil consideration or at a nominal value.

The written documentation for the Contractual Arrangements have been signed by the relevant members of the Group and the relevant Registered Owners to record 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 during the year ended 31 December 2010 are set out below:

| | Name of OPCO | Date of establishment of OPCO | Registered capital (Note viii) RMB million | Name of Registered Owner(s) / owner(s) and shareholding | Amount of loan advanced under the Contractual Arrangements Agreement(s) RMB million | Name of OPCO Interest Beneficiary (Note ix) | Group's attributable interests | Subsidiary / Associate / Jointly controlled entity |
|---|---|---|---|---|---|---|---|---|
| 1. | 江門大昌貿易行有限公司 (Dah Chong Hong (Jiangmen) Limited) | 20.5.2003 | 5 | 張江長 (Zhang Jiangchang) (90%)<br>嚴夢英 (Yan Mengying) (10%) | 4.5<br>0.5 | Dah Chong Hong (China) Limited | 100% | Subsidiary |
| 2. | 江門昌運油品有限公司 (Chang Yun Oil Products Co. Ltd.) | 20.5.2003 | 21.76 | 張江長 (Zhang Jiangchang) (50%) | 10.88 | Dah Chong Hong (China) Limited | 50% | Jointly controlled entity |
| 3. | 上海大昌行經貿有限公司 (Shanghai Dah Chong Hong Trading Ltd.) | 14.4.1998 | 12.5 | 上海大昌行食品工業有限公司 Shanghai DCH Food Industries Ltd. (88%)<br>王靜芬 (Wang Jingfen) (8%)<br>嚴夢英 (Yan Mengying) (4%) | –<br>1<br>0.5 | Dah Chong Hong (China) Limited | 100% | Subsidiary |
| 4. | 上海大昌行儲運有限公司 (Shanghai Dah Chong Hong Storage and Transportation Limited) | 27.5.2005 | 0.5 | 上海大昌行經貿有限公司 (Shanghai Dah Chong Hong Trading Ltd.) (80%)<br>楊福祥 (Yang Fuxiang) (20%) | –<br>0.1 | Dah Chong Hong (China) Limited | 100% | Subsidiary |
| 5. | 上海大昌行國際貿易有限公司 (Dah Chong Hong International Shanghai Ltd.) | 27.5.2005 | 5 | 上海大昌行經貿有限公司 (Shanghai Dah Chong Hong Trading Ltd.) (80%)<br>楊福祥 (Yang Fuxiang) (20%) | –<br>1 | Dah Chong Hong (China) Limited | 100% | Subsidiary |
| 6. | 上海上昌工貿有限公司 (Shanghai Shangchang Industry and Trading Limited) | 26.12.2000 | 5.88 | 王靜芬 (Wang Jingfen) (60%)<br>許學華 (Xu Xuehua) (40%) | 3.528<br>2.352 | Dah Chong Hong (China) Limited | 100% | Subsidiary |
| 7. | 上海宏圖電器有限公司 (Shanghai Vision Electrical Appliances Co., Ltd.) | 14.12.2000 | 1 | 上海大昌行經貿有限公司 (Shanghai Dah Chong Hong Trading Ltd.) (80%)<br>嚴夢英 (Yan Mengying) (20%) | –<br>0.2 | Dah Chong Hong (China) Limited | 100% | Subsidiary |
| 8. | 廣東慎昌貿易有限公司 (Guang Dong Sims Trading Co., Ltd.) | 4.4.1999 | 4 | 江門慎昌貿易有限公司 (Sims Trading (Jiangmen) Company Limited) (75.25%)<br>嚴夢英 (Yan Mengying) (24.75%) | –<br>0.99 | Sims (China) Limited | 100% | Subsidiary |
| 9. | 江門慎昌貿易有限公司 (Sims Trading (Jiangmen) Company Limited) | 20.5.2003 | 10 | 鄧建良 (Deng Jianliang) (90%)<br>張江長 (Zhang Jiangchang) (10%) | 9<br>1 | Sims (China) Limited | 100% | Subsidiary |
| 10. | 上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited) | 14.4.1997 | 12 | 沈學鋒 (Shen Xuefeng) (50%)<br>程濟美 (Cheng Jimei) (41.50%)<br>上海大昌行經貿有限公司 (Shanghai Dah Chong Hong Trading Ltd.) (8.50%) | 6<br>4.98<br>– | Triangle Motors (China) Limited | 100% | Subsidiary |

| | Name of OPCO | Date of establishment of OPCO | Registered capital (Note viii) RMB million | Name of Registered Owner(s) / owner(s) and shareholding | Amount of loan advanced under the Contractual Arrangements Agreement(s) RMB million | Name of OPCO Interest Beneficiary (Note ix) | Group's attributable interests | Subsidiary / Associate / Jointly controlled entity |
|---|---|---|---|---|---|---|---|---|
| 11. | 寧波眾鈴汽車貿易有限公司 (Ningbo Zhongling Motors Trading Limited) | 17.8.2000 | 12 | 上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited) (67%)<br>仲玉林 (Zhong Yulin) (33%) | –<br>4 | Triangle Motors (China) Limited | 100% | Subsidiary |
| 12. | 昆明合達汽車銷售服務有限公司 (Kunming Heda Motors Sale and Service Limited) | 14.8.2001 | 5 | 深圳市眾運汽車貿易有限公司 (Shenzhen Zhongyun Motors Trading Limited) (60%)<br>仲玉林 (Zhong Yulin) (40%) | –<br>2 | Triangle Motors (China) Limited | 100% | Subsidiary |
| 13. | 江門市寶昌汽車銷售服務有限公司 (Jiangmen Baochang Motors Sale and Service Limited) | 16.4.2003 | 12 | 仲玉林 (Zhong Yulin) (50%)<br>蔡兆敏 (Cai Zhaomin) (50%) | 6<br>6 | Dah Chong Hong Motors (China) Limited | 100% | Subsidiary |
| 14. | 廣東駿現汽車貿易有限公司 (Guangdong Junxian Motors Trading Limited) | 7.7.2004 | 10 | 程濟美 (Cheng Jimei) (20%)<br>仲玉林 (Zhong Yulin) (80%) | 2<br>8 | Dah Chong Hong Motors (China) Limited | 100% | Subsidiary |
| 15. | 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) | 2.7.2003 | 6 | 蔡兆敏 (Cai Zhaomin) (50%)<br>仲玉林 (Zhong Yulin) (50%) | 3<br>3 | Dah Chong Hong Motors (China) Limited | 100% | Subsidiary |
| 16. | 湛江市駿誠汽車銷售服務有限公司 (Zhangjiang Juncheng Motors Sale and Service Limited) | 16.12.2005 | 12 | 蔡兆敏 (Cai Zhaomin) (80%)<br>仲玉林 (Zhong Yulin) (20%) | 9.6<br>2.4 | Dah Chong Hong Motors (China) Limited | 100% | Subsidiary |
| 17. | 雲南中馳汽車銷售服務有限公司 Yunnan Zhongchi Motor Sales and Services Co., Ltd. | 30.12.2003 | 50 (Note i) | Dah Chong Hong Motors (China) Limited (Note ii) (100%) | – | – | 100% | Subsidiary |
| 18. | 廣東大昌行喜龍二手車交易市場有限公司 (Guangdong Dah Chong Hong – Blissful Dragon Used Motors Trading Limited) | 31.10.2003 | 19.22 | 湛江市駿浩汽車有限公司 (Zhanjiang Junhao Motors Limited) (Note iii) (50%) | – | – | 50% | Jointly controlled entity |
| 19. | 深圳市深昌汽車貿易有限公司 (Shenzhen Shenchang Motors Trading Limited) | 5.9.2003 | 5 | 蔡兆敏 (Cai Zhaomin) (50%)<br>仲玉林 (Zhong Yulin) (50%) | 2.5<br>2.5 | Dah Chong Hong Motors (China) Limited | 100% | Subsidiary |

| | Name of OPCO | Date of establishment of OPCO | Registered capital[Note viii] RMB million | Name of Registered Owner(s) / owner(s) and shareholding | Amount of loan advanced under the Contractual Arrangements Agreement(s) RMB million | Name of OPCO Interest Beneficiary[Note ix] | Group's attributable interests | Subsidiary / Associate / Jointly controlled entity |
|---|---|---|---|---|---|---|---|---|
| 20. | 廣州合駿汽車貿易有限公司 (Guangzhou Hejun Motors Trading Limited) | 18.8.2000 | 10 | 程濟美 (Cheng Jimei) (56.50%)<br>仲玉林 (Zhong Yulin) (33.50%)<br>湛江市駿凱汽車技術服務有限公司 (Zhanjiang Junkai Motors Technology and Service Limited) (10%) | 5.65<br>3.35<br>– | Dah Chong Hong Motors (China) Limited | 100% | Subsidiary |
| 21. | 湛江市駿浩汽車有限公司 (Zhanjiang Junhao Motors Limited) | 18.4.2003 | 5 | 蔡兆敏 (Cai Zhaomin) (50%)<br>仲玉林 (Zhong Yulin) (50%) | 2.5<br>2.5 | Dah Chong Hong Motors (China) Limited | 100% | Subsidiary |
| 22. | 廣東日產汽車貿易有限公司 (Guangdong Nissan Motors Trading Limited) | 15.8.2000 | 10 | 王靜芬 (Wang Jingfen) (50%) | 5 | Dah Chong Hong Motors (Nissan-China) Limited | 50% | Jointly controlled entity |
| 23. | 福州合創汽車貿易有限公司 (Fuzhou Hechuang Motors Trading Limited) | 21.4.2004 | 10 | 蔡兆敏 (Cai Zhaomin) (80%)<br>仲玉林 (Zhong Yulin) (20%) | 8<br>2 | Reliance Motors, Limited | 100% | Subsidiary |
| 24. | 江門大昌行供應鏈管理有限公司 (Jiangmen DCH Supply Chain Management Co., Ltd) | 14.3.2006 | 1 | 上海宏圖電器有限公司 (Shanghai Vision Electrical Appliances Co., Ltd.) (90%)<br>鄧建良 (Deng Jianliang) (10%) | 0.9<br>0.1 | DCH Supply Chain Management Company Limited | 100% | Subsidiary |
| 25. | 廣州賓利汽車貿易有限公司 (Bentley Guangzhou Motor Trading Limited) | 22.10.2007 | 10 | 上海賓利汽車銷售有限公司 (Bentley Shanghai Motor Sales Ltd.) (51%)<br>蔡兆敏 (Cai Zhaomin) (49%) | –<br>4.9 | DCH Motors (Bentley) Limited | 100% | Subsidiary |
| 26. | 佛山駿安豐田汽車銷售服務有限公司 (Foshan Junan Toyota Motors Sale and Service Limited) | 7.8.2007 | 10 | 廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited) (99%)<br>盧敏燕 (Lu Minyan) (1%) | –<br>0.1 | 廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited) | 49%[Note iv] | Subsidiary |
| 27. | 廣州駿佳凌志汽車銷售服務有限公司 (Guangzhou Junjia Lexus Motors Sale and Service Limited) | 24.3.2004 | 10 | Mak Hing Lung (55%) | 5.5 | Profit Paradise Investments Limited | 27.5% | Subsidiary |
| 28. | 廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited) | 9.1.1997 | 15 | Sunny Linker Development Limited[Note v] (100%) | – | – | 49%[Note iv] | Subsidiary |

| | Name of OPCO | Date of establishment of OPCO | Registered capital(Note viii) RMB million | Name of Registered Owner(s) / owner(s) and shareholding | Amount of loan advanced under the Contractual Arrangements Agreement(s) RMB million | Name of OPCO Interest Beneficiary (Note ix) | Group's attributable interests | Subsidiary / Associate / Jointly controlled entity |
|---|---|---|---|---|---|---|---|---|
| 29. | 佛山駿安商貿有限公司 (Foshan Junan Trading Limited) | 12.12.2008 | 0.5(Note vi) | 廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited) (1%)<br>佛山駿安豐田汽車銷售服務有限公司 (Foshan Junan Toyota Motors Sale and Service Limited) (99%) | 0.005<br>– | 佛山駿安豐田汽車銷售服務有限公司 (Foshan Junan Toyota Motors Sale and Service Limited) | 49%(Note iv) | Subsidiary |
| 30. | 深圳市深業豐田汽車銷售服務有限公司 (Shenzhen Shenye Toyota Motors Sale and Service Limited) | 2.4.2001 | 20 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) (98%)<br>李晨迪 (Li Chendi) (2%) | –<br>0.4 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) | 50% | Jointly controlled entity |
| 31. | 深圳市興業豐田汽車銷售服務有限公司 (Shenzhen Xingye Toyota Motors Sale and Service Limited) | 25.2.2009 | 10 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) (98%)<br>張國興 (Zhang Guoxing)(Note vii) (2%) | –<br>0.2 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) | 50% | Jointly controlled entity |
| 32. | 深圳市盛業汽車銷售服務有限公司 (Shenzhen Shengye Toyota Motors Sale and Service Limited) | 12.1.2006 | 12 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) (98%)<br>張國興 (Zhang Guoxing) (2%) | –<br>0.24 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) | 50% | Jointly controlled entity |
| 33. | 梅州深業豐田汽車銷售服務有限公司 (Meizhou Shenye Toyota Motors Sale and Service Limited) | 12.3.2007 | 10 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) (98%)<br>李浣樑 (Li Huanliang) (2%) | –<br>0.2 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) | 50% | Jointly controlled entity |
| 34. | 深圳深業雷克薩斯汽車銷售服務有限公司 (Shenzhen Shenye Lexus Motors Sale and Service Limited) | 23.3.2010 | 30 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) (98%)<br>張國興 (Zhang Guoxing) (2%) | –<br>0.6 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) | 50% | Jointly controlled entity |
| 35. | 九江深業豐田汽車銷售服務有限公司 (Jiujiang Shenye Toyota Motors Sale and Service Limited) | 9.7.2010 | 10 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) (98%)<br>李晨迪 (Li Chendi) (2%) | –<br>0.2 | 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) | 50% | Jointly controlled entity |

Notes:

i. The registered capital was increased from RMB6.15 million to RMB50 million during the year.

ii. The Registered Owners were changed from 蔡兆敏 (Cai Zhaomin) 50% and 仲玉林 (Zhong Yulin) 50% to Dah Chong Hong Motors (China) Limited (100%) during the year. Since then, no further Contractual Arrangement was in place in respect of this OPCO.

iii. 湛江市駿浩汽車有限公司 (Zhanjiang Junhao Motors Limited) acquired 50% of the equity contribution of the OPCO from 蔡兆敏 (Cai Zhaomin), the Registered Owner, and 廣東日産汽車貿易有限公司 (Guangdong Nissan Motor Trading Co., Ltd.) ("Guangdong Nissan") (including the 22.68% of the equity contribution held under the relevant Contractual Arrangement by 蔡兆敏 (Cai Zhaomin) and the 27.32% of the equity contribution held by Guangdong Nissan respectively) during the year. Since then, no further Contractual Arrangement was in place in respect of this OPCO.

iv. The Group holds 50% economic interest.

v. The Registered Owners were changed from 胡麗紅 (Hu Lihong) 51% and 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) 49% to Sunny Linker Development Limited (100%) during the year. Since then, no further Contractual Arrangement was in place in respect of this OPCO.

vi. The registered capital was decreased from RMB2 million to RMB0.5 million during the year.

vii. The Registered Owner was changed from 楊連才 (Yang Liancai) 2% to 張國興 (Zhang Guoxing) 2% during the year.

viii. Total investment amount is not applicable to each OPCO.

ix. A member of the Group in Hong Kong or the PRC being the beneficiary in respect of the Contractual Arrangement(s) under the OPCO.

x. All the English names in brackets above are the English translation of the respective official names in Chinese and the English translation is for reference only.

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) no dividends or other distributions were declared by OPCOs for the year ended 31 December 2010 and (iv) the new Contractual Arrangements entered into during the year are fair and reasonable so far as the Group is concerned and in the interests of the shareholders of the Company as a whole.

The Company's auditors were engaged to report on the Contractual Arrangements listed above in accordance with Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their letter containing their fact findings in respect of the conditions as set out in the Prospectus of the Company dated 4 October 2007, as required by the specific waiver granted by the Hong Kong Stock Exchange to the Company dated 28 September 2007. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

## Share Option Schemes

**Pre-IPO Share Option Scheme**

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

a. The purpose of the Pre-IPO Scheme is to recognise the contributions of certain directors and employees of the Group to the growth of the Group and to incentivise such persons going forward.

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

c. The maximum number of shares over which share 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 in the Company's shares on the Hong Kong Stock Exchange.

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

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

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

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

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

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

| Date of grant | Number of share options | Exercise period | Exercise price per share HK$ |
|---|---|---|---|
| 3.10.2007 | 18,000,000 | 17.4.2008 – 2.10.2012 | 5.880 |

All share options granted and accepted were 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. The remaining contractual life of the share options is 1.8 years.

A summary of the movements of share options during the year ended 31 December 2010 is as follows:

**1. Directors of the Company**

| Name of director | Date of grant | Exercise period | Exercise price per share HK$ | Number of share options: Balance as at 1.1.2010 | Granted during the year ended 31.12.2010 | Lapsed / Cancelled during the year ended 31.12.2010 | Exercised during the year ended 31.12.2010 | Balance as at 31.12.2010 | Percentage to the issued share capital |
|---|---|---|---|---|---|---|---|---|---|
| Hui Ying Bun | 3.10.2007 | 17.4.2008 - 2.10.2012 | 5.880 | 1,700,000 | – | – | 1,200,000 | 500,000 | 0.028% |
| Chu Hon Fai | 3.10.2007 | 17.4.2008 - 2.10.2012 | 5.880 | 1,200,000 | – | – | 1,000,000 | 200,000 | 0.011% |
| Yip Moon Tong | 3.10.2007 | 17.4.2008 - 2.10.2012 | 5.880 | 1,000,000 | – | – | 1,000,000 | – | – |
| Mak Kwing Tim | 3.10.2007 | 17.4.2008 - 2.10.2012 | 5.880 | 800,000 | – | – | 400,000 | 400,000 | 0.022% |
| Lau Sei Keung | 3.10.2007 | 17.4.2008 - 2.10.2012 | 5.880 | 800,000 | – | – | 400,000 | 400,000 | 0.022% |
| Tsoi Tai Kwan, Arthur | 3.10.2007 | 17.4.2008 - 2.10.2012 | 5.880 | 800,000 | – | – | 500,000 | 300,000 | 0.017% |
| Glenn Robert Sturrock Smith | 3.10.2007 | 17.4.2008 - 2.10.2012 | 5.880 | 500,000 | – | – | 200,000 | 300,000 | 0.017% |

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

| Date of grant | Exercise period | Exercise price per share HK$ | Number of share options: Balance as at 1.1.2010 | Granted during the year ended 31.12.2010 | Lapsed / Cancelled during the year ended 31.12.2010 | Exercised during the year ended 31.12.2010 | Balance as at 31.12.2010 | Percentage to the issued share capital |
|---|---|---|---|---|---|---|---|---|
| 3.10.2007 | 17.4.2008 – 2.10.2012 | 5.880 | 10,100,000 | – | 100,000 | 4,675,000 | 5,325,000 | 0.293% |

The weighted average closing price of the shares of the Company immediately before the dates on which the shares options were exercised was HK$8.73.

**Post-IPO Share Option Scheme**

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

a. 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 of the Group and to promote the long term financial success of the Company by aligning the interests of grantees to the Company's shareholders.

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

c. The maximum number of shares over which share 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 of the Company in issue immediately following the commencement of dealings in the Company's shares on the Hong Kong Stock Exchange or (ii) the shares of the Company in issue from time to time, whichever is the lower. As at 2 March 2011, the maximum number of shares available for issue under the Post-IPO Scheme is 138,600,000, representing approximately 7.62% of the issued share capital of the Company. Shares 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.

d. The total number of shares issued and to be issued upon exercise of share 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.

e. The exercise period of any share option granted under the Post-IPO Scheme must not be more than 10 years commencing on the date of grant.

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

g. 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 Hong Kong Stock Exchange's daily quotations sheets on the date of grant; (ii) the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

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

Since the adoption of the Post-IPO Scheme, the Company has granted one lot of share options:

| Date of grant | Number of share options | Exercise period | Exercise price per share HK$ |
|---|---|---|---|
| 7.7.2010 | 23,400,000 | 7.7.2010 – 6.7.2015 | 4.766 |

The closing price of shares of the Company immediately before the grant on 7 July 2010 was HK$4.690 per share. All share options granted were accepted.

All share options granted and accepted were fully vested on the date of grant and are then exercisable in whole or in part within 5 years from the date of grant. The remaining contractual life of the share options is 4.5 years.

A summary of the movements of share options during the year ended 31 December 2010 is as follows:

### 1. Directors of the Company

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of director | Date of grant | Exercise period | Exercise price per share HK$ | Balance as at 1.1.2010 | Granted during the year ended 31.12.2010 | Lapsed / Cancelled / Exercised during the year ended 31.12.2010 | Balance as at 31.12.2010 | Percentage to the issued share capital |
| Hui Ying Bun | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 1,800,000 | – | 1,800,000 | 0.099% |
| Chu Hon Fai | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 1,450,000 | – | 1,450,000 | 0.080% |
| Yip Moon Tong | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 1,450,000 | – | 1,450,000 | 0.080% |
| Mak Kwing Tim | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 1,100,000 | – | 1,100,000 | 0.061% |
| Lau Sei Keung | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 1,100,000 | – | 1,100,000 | 0.061% |
| Tsoi Tai Kwan, Arthur | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 1,100,000 | – | 1,100,000 | 0.061% |
| Glenn Robert Sturrock Smith | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 1,100,000 | – | 1,100,000 | 0.061% |
| Wai King Fai, Francis | 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 900,000 | – | 900,000 | 0.050% |

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

| Date of grant | Exercise period | Exercise price per share HK$ | Number of share options: Balance as at 1.1.2010 | Granted during the year ended 31.12.2010 | Lapsed / Cancelled during the year ended 31.12.2010 | Exercised during the year ended 31.12.2010 | Balance as at 31.12.2010 | Percentage to the issued share capital |
|---|---|---|---|---|---|---|---|---|
| 7.7.2010 | 7.7.2010 – 6.7.2015 | 4.766 | – | 13,400,000 | – | 7,300,000 | 6,100,000 | 0.336% |

The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK$8.72.

The fair value of the share options granted under the Post-IPO Scheme during the year ended 31 December 2010 measured at the date of grant of 7 July 2010 was HK$1.33 per share based on the following assumptions using the Binomial Lattice Model:

| | |
|---|---|
| – Share price at the grant date | HK$4.610 |
| – Exercise price | HK$4.766 |
| – Expected volatility of the Company's share price per annum | 45% |
| – Expected average share option life | 3.8 years |
| – Expected dividend yield per annum | 3% |
| – Risk-free interest rate per annum (based on Hong Kong Exchange Fund Notes) | 1.15% |

The expected volatility and dividend yield is based on historical volatility and dividend yields. Changes in the above assumptions could materially affect the share options' fair value estimate.

The total expense recognised in the Company's income statement for the year ended 31 December 2010 in respect of the grant of the aforesaid 23,400,000 share options for the shares of the Company is HK$31,122,000.

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

## Update on Directors' Information

1. Pursuant to Rule 13.51B(1) of the Listing Rules, set out below is the latest information regarding the monthly salary of the executive directors under their respective service contracts:

| Name of executive director | **Monthly salary commencing on January 2011 HK$** | Monthly salary commencing on January 2010 HK$ |
|---|---|---|
| Hui Ying Bun | **153,000** | 147,000 |
| Chu Hon Fai | **142,000** | 137,000 |
| Yip Moon Tong | **136,000** | 131,000 |
| Mak Kwing Tim | **131,000** | 126,000 |
| Lau Sei Keung | **126,000** | 121,000 |
| Tsoi Tai Kwan, Arthur | **126,000** | 121,000 |
| Glenn Robert Sturrock Smith | **126,000** | 121,000 |
| Wai King Fai, Francis | **133,000** | 128,000 |

Notes:

i. The insurance premium and retirement benefits contributions of the executive directors are calculated as a percentage of their monthly salary pursuant to their respective service contracts. There is no change in such percentage.

ii. The discretionary bonus of the executive directors continues to be subject to the performance of the Company and the individual for the year ending 31 December 2011.

iii. For information regarding the full details of the directors' remuneration for the year ended 31 December 2010, please refer to note 9 to the financial statements.

2. The following proposals effective for the financial year ending 31 December 2011 in relation to directors' fees and fees for serving on certain board committees of the directors of the Company have been endorsed by the Board in March 2011 and will be put forward for shareholders' approval at the forthcoming annual general meeting of the Company to be held on 11 May 2011:

   a. Removing the directors' fees and fees for serving on any board committees for executive directors serving on the board of the Company and directors with employment with CITIC Pacific;

   b. Raising the directors' fees for the remaining non-executive directors from HK$120,000 to HK$180,000 per annum;

   c. Raising the fee for serving on the Audit Committee from HK$80,000 to HK$100,000 per annum; and

   d. Raising the fee for serving on the Remuneration Committee from HK$40,000 to HK$50,000 per annum.

## 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 (the "SFO")) as at 31 December 2010 as recorded in the register required to be kept under section 352 of the SFO were as follows:

**1. Shares**

***(a) in the Company***

| Name of director | Number of shares<br>Personal interests unless otherwise stated | Percentage to the issued share capital |
|---|---|---|
| Hui Ying Bun | 2,216,000 | 0.122% |
| Chu Hon Fai | 900,000 | 0.050% |
| Yip Moon Tong | 1,300,000 (Note) | 0.072% |
| Mak Kwing Tim | 108,000 | 0.006% |
| Lau Sei Keung | 580,000 | 0.032% |
| Tsoi Tai Kwan, Arthur | 420,000 | 0.023% |
| Glenn Robert Sturrock Smith | 250,000 | 0.014% |

Note: Interest jointly held with his spouse in respect of 300,000 shares and personal interest in respect of 1,000,000 shares.

***(b) in associated corporations***

*(i) CITIC Pacific*

| Name of director | Number of shares<br>Personal interests | Percentage to the issued share capital |
|---|---|---|
| Hui Ying Bun | 637,000 | 0.01746% |
| Chu Hon Fai | 293,000 | 0.00803% |
| Mak Kwing Tim | 5,000 | 0.00014% |
| Lau Sei Keung | 1,000 | 0.00003% |
| Tsoi Tai Kwan, Arthur | 18,000 | 0.00049% |

*(ii) China CITIC Bank Corporation Limited*

| Name of director | Number of shares<br>Personal interests | Percentage to the issued share capital |
|---|---|---|
| Cheung Kin Piu, Valiant | 912,000 | 0.007% |

**2. Share Options**

***(a) in the Company***

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

***(b) in associated corporations***

*(i) CITIC Pacific*

| Name of director | Date of grant | Exercise period | Exercise price per share HK$ | Number of share options: Balance as at 1.1.2010 | Granted during the year ended 31.12.2010 | Lapsed / Cancelled / Exercised during the year ended 31.12.2010 | Balance as at 31.12.2010 | Percentage to the issued share capital |
|---|---|---|---|---|---|---|---|---|
| Hui Ying Bun | 20.6.2006 | 20.6.2006 – 19.6.2011 | 22.10 | 300,000 | – | – | 300,000 | 0.008% |
| Chu Hon Fai | 20.6.2006 | 20.6.2006 – 19.6.2011 | 22.10 | 200,000 | – | – | 200,000 | 0.005% |
| Kwok Man Leung | 16.10.2007 | 16.10.2007 – 15.10.2012 | 47.32 | 600,000 | – | – | 600,000 | |
| | 19.11.2009 | 19.11.2009 – 18.11.2014 | 22.00 | 500,000 | – | – | 500,000 | |
| | | | | | | | 1,100,000 | 0.030% |
| Fei Yiping | 19.11.2009 | 19.11.2009 – 18.11.2014 | 22.00 | 300,000 | – | – | 300,000 | 0.008% |

Note: The share options were granted by CITIC Pacific.

*(ii) CITIC Telecom International Holdings Limited (formerly known as CITIC 1616 Holdings Limited)*

| Name of director | Date of grant | Exercise period | Exercise price per share HK$ | Number of share options: Balance as at 1.1.2010 | Granted during the year ended 31.12.2010 | Lapsed / Cancelled / Exercised during the year ended 31.12.2010 | Balance as at 31.12.2010 | Percentage to the issued share capital |
|---|---|---|---|---|---|---|---|---|
| Kwok Man Leung | 17.9.2009 | 17.9.2010 – 16.9.2015 | 2.10 | 150,000 | – | – | 150,000 | |
| | 17.9.2009 | 17.9.2011 – 16.9.2016 | 2.10 | 150,000 | – | – | 150,000 | |
| | | | | | | | 300,000 | 0.013% |

Note: The share options were granted by CITIC Telecom International Holdings Limited, a fellow subsidiary of the Company.

Save as disclosed above, as at 31 December 2010, 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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer in the Listing Rules.

Save as disclosed above, at no time during the year was the Company, its holding companies, 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.

## Substantial Shareholders

As at 31 December 2010, the interests of the substantial shareholders 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 of substantial shareholder | Number of shares of the Company | Percentage to the issued share capital |
|---|---|---|
| CITIC Group | 1,054,800,000 | 58.13% |
| CITIC Pacific | 1,018,800,000 | 56.15% |
| Davenmore Limited | 1,018,800,000 | 56.15% |
| Colton Pacific Limited | 800,922,200 | 44.14% |
| Chadacre Developments Limited | 245,102,000 | 13.51% |
| Ascari Holdings Ltd. | 217,877,800 | 12.01% |
| Cornaldi Enterprises Limited | 95,317,400 | 5.25% |

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 and Greenlane International Holdings Inc. as to 81,000,000 shares.

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.

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

CITIC Group was deemed to be interested in 1,054,800,000 shares through its non-wholly owned subsidiary, CITIC Pacific, as to 1,018,800,000 shares and its wholly-owned subsidiary, Hainsworth Limited, as to 36,000,000 shares.

## Share Capital

Details of the movements in share capital of the Company during the year are set out in note 31 to the financial statements. Shares were issued during the year on exercise of share options.

Neither the Company nor any of its subsidiary companies purchased or sold any of the Company's shares during the year ended 31 December 2010 and the Company did not redeem any of its shares during the year ended 31 December 2010.

## Service Contracts

As at 31 December 2010, 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 of the Company.

## 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 during the year ended 31 December 2010.

By order of the Board
**Hui Ying Bun** *Chairman*
Hong Kong, 2 March 2011

**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") and its subsidiaries (together the "Group") set out on pages 78 to 159, which comprise the consolidated and Company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements 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 information.

***Directors' responsibility for the consolidated financial statements***

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's responsibility***

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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
2 March 2011

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

| HK$ million | Note | **2010** | 2009 |
|---|---|---|---|
| **Turnover** | 4 | **32,211** | 22,209 |
| Cost of sales | | **(28,269)** | (19,295) |
| **Gross profit** | | **3,942** | 2,914 |
| Net valuation gain / (loss) on investment properties | 14(a) | **30** | (12) |
| Other income | 6 | **393** | 317 |
| Selling and distribution expenses | | **(1,691)** | (1,275) |
| Administrative expenses | | **(1,180)** | (991) |
| **Profit from operations** | | **1,494** | 953 |
| Net gain on disposal of land and buildings held for own use | 7(d) | **122** | 56 |
| Net gain on disposal of jointly controlled entities | 20 | **331** | 5 |
| Impairment losses on property, plant and equipment, intangible assets and goodwill | 7(c) | **(106)** | (14) |
| Finance costs | 7(a) | **(115)** | (112) |
| Share of profit after tax of associates | | **21** | 28 |
| Share of profit after tax of jointly controlled entities | 20(b) | **50** | 73 |
| **Profit before taxation** | 7 | **1,797** | 989 |
| Income tax | 8 | **(352)** | (239) |
| **Profit for the year** | | **1,445** | 750 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **1,411** | 710 |
| Non-controlling interests | | **34** | 40 |
| | | **1,445** | 750 |
| **Basic earnings per share (HK cents)** | 13(a) | **78.33** | 39.49 |
| **Diluted earnings per share (HK cents)** | 13(b) | **77.96** | 39.49 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| HK$ million | **2010** | 2009 |
|---|---|---|
| **Profit for the year** | **1,445** | 750 |
| Exchange differences on translation of entities outside Hong Kong: | | |
| – subsidiaries | **207** | 10 |
| – associates and jointly controlled entities | **19** | – |
| **Other comprehensive income for the year** | **226** | 10 |
| **Total comprehensive income for the year** | **1,671** | 760 |
| **Attributable to:** | | |
| Shareholders of the Company | **1,624** | 718 |
| Non-controlling interests | **47** | 42 |
| | **1,671** | 760 |

# CONSOLIDATED BALANCE SHEET

At 31 December 2010

| HK$ million | Note | 2010 | 2009 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 14(a) | | |
| – Property, plant and equipment | | **2,115** | 1,763 |
| – Investment properties | | **704** | 808 |
| | | **2,819** | 2,571 |
| Lease prepayments | 15 | **299** | 315 |
| Intangible assets | 16 | **270** | 263 |
| Goodwill | 17 | **260** | 287 |
| Interest in associates | 19 | **203** | 130 |
| Interest in jointly controlled entities | 20 | **356** | 258 |
| Available-for-sale investments | 21 | **8** | 5 |
| Deferred tax assets | 30(a) | **46** | 40 |
| | | **4,261** | 3,869 |
| **Current assets** | | | |
| Inventories | 22 | **3,642** | 2,621 |
| Asset held for sale | 23(a) | **189** | – |
| Trade and other receivables | 24 | **4,634** | 3,075 |
| Current tax recoverable | | **27** | 15 |
| Cash and bank deposits | 25 | **1,991** | 1,895 |
| | | **10,483** | 7,606 |
| **Current liabilities** | | | |
| Borrowings | 26 | **2,577** | 2,041 |
| Trade and other payables | 27 | **4,004** | 3,002 |
| Current tax payable | | **104** | 77 |
| | | **6,685** | 5,120 |
| **Net current assets** | | **3,798** | 2,486 |
| **Total assets less current liabilities** | | **8,059** | 6,355 |
| **Non-current liabilities** | | | |
| Borrowings | 26 | **725** | 395 |
| Deferred tax liabilities | 30(a) | **223** | 204 |
| | | **948** | 599 |
| **Net assets** | | **7,111** | 5,756 |

| HK$ million | Note | **2010** | 2009 |
|---|---|---|---|
| **Capital and reserves** | 31 | | |
| Share capital | | **272** | 270 |
| Reserves | | **6,532** | 5,187 |
| **Total equity attributable to shareholders of the Company** | | **6,804** | 5,457 |
| **Non-controlling interests** | | **307** | 299 |
| **Total equity** | | **7,111** | 5,756 |

Approved and authorised for issue by the board of directors on 2 March 2011.

**Hui Ying Bun**
*Director*

**Yip Moon Tong**
*Director*

# BALANCE SHEET

At 31 December 2010

| HK$ million | Note | 2010 | 2009 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 14(b) | **128** | 118 |
| Interest in subsidiaries | 18 | **103** | 103 |
| | | **231** | 221 |
| **Current assets** | | | |
| Asset held for sale | 23(b) | **–** | 53 |
| Trade and other receivables | 24 | **3,555** | 3,169 |
| Cash and bank deposits | 25 | **141** | 179 |
| | | **3,696** | 3,401 |
| **Current liabilities** | | | |
| Borrowings | 26 | **160** | 475 |
| Trade and other payables | 27 | **221** | 371 |
| Current tax payable | | **2** | – |
| | | **383** | 846 |
| **Net current assets** | | **3,313** | 2,555 |
| **Total assets less current liabilities** | | **3,544** | 2,776 |
| **Non-current liabilities** | | | |
| Borrowings | 26 | **725** | 225 |
| Deferred tax liabilities | 30(a) | **8** | 15 |
| | | **733** | 240 |
| **Net assets** | | **2,811** | 2,536 |
| **Capital and reserves** | 31 | | |
| Share capital | | **272** | 270 |
| Reserves | | **2,539** | 2,266 |
| **Total equity** | | **2,811** | 2,536 |

Approved and authorised for issue by the board of directors on 2 March 2011.

**Hui Ying Bun**
*Director*

**Yip Moon Tong**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| HK$ million | Share capital | Share premium | General reserve | Capital reserve | Statutory surplus reserve | Merger reserve | Share option reserve | Exchange fluctuation reserve | Asset revaluation reserve | Retained profits | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to shareholders of the Company | | | | | | | | | | | | |
| Note | (31(a)) | (31(b)) | (31(c)) | (31(d)) | (31(e)) | (31(f)) | (31(g)) | (31(h)) | (31(i)) | | | | |
| At 1 January 2009 | 270 | 976 | 239 | 143 | 26 | 1 | 26 | 436 | 2 | 2,746 | 4,865 | 295 | 5,160 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 710 | 710 | 40 | 750 |
| Other comprehensive income | - | - | - | - | - | - | - | 8 | - | - | 8 | 2 | 10 |
| Total comprehensive income for the year | - | - | - | - | - | - | - | 8 | - | 710 | 718 | 42 | 760 |
| Acquisition of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | (1) | (1) |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | (47) | (47) |
| Capital injection from holders of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | 3 | 3 |
| Acquisition of interest in subsidiaries | - | - | 8 | - | - | - | - | - | - | - | 8 | 7 | 15 |
| Transfer from retained profits | - | - | 1 | - | 9 | - | - | - | - | (10) | - | - | - |
| Lapse of share options | - | - | - | - | - | - | (1) | - | - | 1 | - | - | - |
| Dividends (Note 12) | - | - | - | - | - | - | - | - | - | (134) | (134) | - | (134) |
| At 31 December 2009 | 270 | 976 | 248 | 143 | 35 | 1 | 25 | 444 | 2 | 3,313 | 5,457 | 299 | 5,756 |

| HK$ million | Attributable to shareholders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | General reserve | Capital reserve | Statutory surplus reserve | Merger reserve | Share option reserve | Exchange fluctuation reserve | Asset revaluation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| Note | (31(a)) | (31(b)) | (31(c)) | (31(d)) | (31(e)) | (31(f)) | (31(g)) | (31(h)) | (31(i)) | | | | |
| At 1 January 2010 | 270 | 976 | 248 | 143 | 35 | 1 | 25 | 444 | 2 | 3,313 | 5,457 | 299 | 5,756 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 1,411 | 1,411 | 34 | 1,445 |
| Other comprehensive income | - | - | - | - | - | - | - | 213 | - | - | 213 | 13 | 226 |
| Total comprehensive income for the year | - | - | - | - | - | - | - | 213 | - | 1,411 | 1,624 | 47 | 1,671 |
| Acquisition of non-controlling interests | - | - | (2) | - | - | - | - | - | - | - | (2) | (19) | (21) |
| Disposal of jointly controlled entities | - | - | - | - | - | - | - | (1) | - | 1 | - | - | - |
| Transfer from retained profits | - | - | 15 | - | 2 | - | - | - | - | (17) | - | - | - |
| Share-based payments (Note 29) | - | - | - | - | - | - | 31 | - | - | - | 31 | - | 31 |
| Exercise of share options | 2 | 111 | - | - | - | - | (24) | - | - | - | 89 | - | 89 |
| Dividends (Note 12) | - | - | - | - | - | - | - | - | - | (395) | (395) | - | (395) |
| Dividends paid to holders of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | (20) | (20) |
| At 31 December 2010 | 272 | 1,087 | 261 | 143 | 37 | 1 | 32 | 656 | 2 | 4,313 | 6,804 | 307 | 7,111 |

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| HK$ million | Share capital | Share premium | Share option reserve | Retained profits | Total |
|---|---|---|---|---|---|
| Note | (31(a)) | (31(b)) | (31(g)) | (31(j)) | |
| At 1 January 2009 | 270 | 976 | 26 | 1,123 | 2,395 |
| Total comprehensive income for the year | – | – | – | 275 | 275 |
| Lapse of share options | – | – | (1) | 1 | – |
| Dividends (Note 12) | – | – | – | (134) | (134) |
| At 31 December 2009 | 270 | 976 | 25 | 1,265 | 2,536 |
| **At 1 January 2010** | **270** | **976** | **25** | **1,265** | **2,536** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **550** | **550** |
| **Share-based payments (Note 29)** | **–** | **–** | **31** | **–** | **31** |
| **Exercise of share options** | **2** | **111** | **(24)** | **–** | **89** |
| **Dividends (Note 12)** | **–** | **–** | **–** | **(395)** | **(395)** |
| **At 31 December 2010** | **272** | **1,087** | **32** | **1,420** | **2,811** |

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

| HK$ million | Note | **2010** | 2009 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **1,797** | 989 |
| Adjustments for: | | | |
| – Net valuation (gain) / loss on investment properties | | **(30)** | 12 |
| – Depreciation and amortisation | | **276** | 250 |
| – Impairment loss on trade and other receivables | | **1** | 32 |
| – Impairment losses on property, plant and equipment, intangible assets and goodwill | | **106** | 14 |
| – Impairment loss on lease prepayments | | **1** | – |
| – Finance costs | | **115** | 112 |
| – Interest income | | **(15)** | (12) |
| – Share of profit after tax of associates | | **(21)** | (28) |
| – Share of profit after tax of jointly controlled entities | | **(50)** | (73) |
| – Net gain on changes in non-controlling interests | | **–** | (1) |
| – Net gain on disposal of fixed assets | | **(127)** | (92) |
| – Net loss on disposal of subsidiaries | | **1** | 1 |
| – Net gain on disposal of jointly controlled entities | | **(331)** | (5) |
| – Net fair value (gain) / loss on foreign currency forward contracts | | **(8)** | 11 |
| – Share-based payments | | **31** | – |
| – Foreign exchange gain | | **(28)** | (6) |
| **Operating profit before changes in working capital** | | **1,718** | 1,204 |
| (Increase) / decrease in inventories | | **(931)** | 125 |
| Increase in trade and other receivables | | **(1,398)** | (43) |
| Increase in trade and other payables | | **876** | 127 |
| **Cash generated from operations** | | **265** | 1,413 |
| Income tax paid | | **(340)** | (223) |
| **Net cash (used in) / generated from operating activities** | | **(75)** | 1,190 |

| HK$ million | Note | 2010 | 2009 |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for purchase of fixed assets | | **(654)** | (435) |
| Payment for lease prepayments | | **–** | (46) |
| Proceeds from disposal of fixed assets | | **166** | 264 |
| Proceeds from disposal of lease prepayments | | **21** | – |
| Acquisition of non-controlling interests | | **–** | (1) |
| Acquisition of jointly controlled entities | 20 | **(152)** | – |
| Capital injection from holders of non-controlling interests | | **–** | 3 |
| Capital injection to associates | | **(57)** | (9) |
| Capital injection to jointly controlled entities | | **–** | (4) |
| Advance and repayment to associates | | **–** | (27) |
| Advance and repayment from associates | | **1** | 27 |
| Advance and repayment to jointly controlled entities | | **(74)** | (21) |
| Advance and repayment from jointly controlled entities | | **19** | 30 |
| Net cash outflow for purchase of subsidiaries | | **–** | (16) |
| Net cash outflow for purchase of business | | **–** | (16) |
| Net cash inflow from disposal of subsidiaries | | **1** | 1 |
| Loan to a shareholder of a jointly controlled entity | 24(f) | **(106)** | – |
| Interest received | | **15** | 12 |
| Dividend received from jointly controlled entities | | **55** | 34 |
| Proceeds from disposal of a jointly controlled entity | 20 | **500** | – |
| Increase in deposits with banks | | **(68)** | (66) |
| **Net cash used in investing activities** | | **(333)** | (270) |
| **Financing activities** | | | |
| Proceeds from bank and other loans drawdown | | **9,028** | 2,888 |
| Repayment of bank and other loans | | **(8,233)** | (3,377) |
| Acquisition of non-controlling interests | 32 | **(21)** | – |
| Advance and repayment to holders of non-controlling interests | | **(132)** | (31) |
| Advance and repayment from holders of non-controlling interests | | **168** | 27 |
| Interest paid | | **(115)** | (112) |
| Dividends paid to shareholders of the Company | | **(395)** | (134) |
| Dividends paid to holders of non-controlling interests | | **(20)** | – |
| Proceeds from shares issued under share option schemes | | **89** | – |
| **Net cash generated from / (used in) financing activities** | | **369** | (739) |
| **Net (decrease) / increase in cash and cash equivalents** | | **(39)** | 181 |
| **Cash and cash equivalents at 1 January** | | **1,647** | 1,464 |
| **Effect of foreign exchange rates changes** | | **64** | 2 |
| **Cash and cash equivalents at 31 December** | 25 | **1,672** | 1,647 |

## 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.

### (b) Changes in accounting policies

The Group has adopted all relevant new and revised HKFRSs which are effective for accounting period beginning on or after 1 January 2010. The relevant revised HKFRSs are listed below:

#### *(i) HKFRS 3 (Revised) "Business Combinations"*

The HKFRS 3 (Revised) requires that in a business combination achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition-date fair value, and any difference from the carrying value is recognised in profit or loss. The fair value at acquisition date of any contingent purchase consideration is included as part of the cost of acquisition. Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed in the period in which the costs are incurred.

There is a choice on a transaction-by-transaction basis to measure non-controlling interest (previously known as "minority interest") in the acquiree either at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, at the acquisition date. The adoption of this revised HKFRS has no significant impact on the Group's results of operations and financial position.

#### *(ii) HKAS 27 (Revised) "Consolidated and Separate Financial Statements"*

HKAS 27 (Revised) requires that the changes in ownership interest in an existing subsidiary that do not result in the loss of control be accounted for as transactions with shareholders in their capacity as owners and be recognised directly in equity. Therefore, no goodwill and gain or loss will be recognised.

When the control of a subsidiary is lost, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest by the Group being recognised at fair value at the date when control is lost and the resulting fair value re-measurement gain or loss being recognised in profit or loss. The adoption of this revised HKAS has no significant impact on the Group's results of operations and financial position.

## 1. Significant accounting policies (continued)

### (b) Changes in accounting policies (continued)

***(iii) Improvements to HKFRSs 2009***

As a result of the amendments to HKAS 17 "Leases" arising from the "Improvements to HKFRSs 2009", leasehold land may be classified as a finance lease when significant risks and rewards associated with the land are transferred to the lessee despite there being no transfer of the title at the end of the lease term. The amendments to HKAS 17 are required to be applied retrospectively. Comparative figures have been restated to reflect this change in accounting policy. The effect of the adoption of this change in accounting policy is a reclassification of lease prepayment in Hong Kong to property, plant and equipment in the consolidated balance sheet of HK$61 million at 31 December 2010 and HK$62 million at 31 December 2009.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting year (see note 2).

### (c) 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. 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 and in any future periods affected.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

### (d) Subsidiaries and non-controlling 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.

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.

Non-controlling interests represent the portion of the net assets of subsidiaries not attributable directly or indirectly to the Group, are presented in the consolidated balance sheet within equity, separately from equity attributable to shareholders of the Company. Non-controlling 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 non-controlling interests and shareholders of the Company. For each business combination, the Group can measure any non-controlling interests either at fair value or at their proportionate share of the acquired subsidiary's identifiable net assets.

## 1. Significant accounting policies (continued)

### (d) Subsidiaries and non-controlling interests (continued)

Changes in the Group's equity interests in a subsidiary that do not result in the loss of control are accounted for as equity transactions, whereby adjustments are made directly in equity to reflect the change in relative interests. Therefore, no goodwill and gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of an available-for-sale investment (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in associate or jointly controlled entity (see note 1(e)).

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

### (e) 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, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of investment, if any. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(m)). The Group's share of the post-acquisition after tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement whereas the Group's share of the post-acquisition after tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income. Any acquisition-date fair values in excess of costs is also accounted for in the Group's consolidated income statement.

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 investee.

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.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and such amount is regarded as the fair value on initial recognition of an available-for-sale investment (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in associate.

## 1. Significant accounting policies (continued)

### (f) Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

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

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the gain or loss on disposal.

### (g) Available-for-sale investments

Available-for-sale investments are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss. 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 expiry date of the investments.

### (h) 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 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 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)*(v)*.

## 1. Significant accounting policies (continued)

### (j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)).

Properties that are being constructed or developed for future use are classified as construction in progress and stated at cost until construction or development is complete, at which time they are reclassified as land and buildings held for own use.

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.

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.

- land classified as being held under finance leases is depreciated on a straight-line basis over the unexpired term of lease.

- buildings situated on freehold land are depreciated on a straight-line basis over their estimated useful lives, being no more than 65 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 fixed assets are depreciated on a straight-line basis over their estimated useful lives of 3 to 20 years.

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

## 1. Significant accounting policies (continued)

### (k) Intangible assets (other than goodwill)

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

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives as follows:

| | |
|---|---|
| Car dealerships | 20 years |
| Others | 4 – 11 years |

The useful life and method of amortisation of an intangible asset are reviewed annually.

### (l) Leased assets

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 (see note 1(i)) 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.

Operating lease payments (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments for 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)).

## 1. Significant accounting policies (continued)

### (m) Impairment of assets

#### *(i) Impairment of trade and other receivables and available-for-sale investments*

Trade and other receivables and available-for-sale investments are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If any event or change in circumstances indicates that the carrying amount may not be recoverable, an impairment loss is determined and recognised as follows and written off against the corresponding assets directly.

- For trade and other receivables carried at 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.

  If in a subsequent period the amount of an impairment loss decreases, 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 investments, the cumulative loss that has been recognised directly in reserve is removed from equity and 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 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 investments are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

## 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;
- lease prepayments;
- 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.

The recoverable amount of an asset is the greater of its fair value less costs to sell 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 the 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 CGU).

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (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.

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 cost of sales 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 cost of sales in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is offset against the cost of sales in the period in which the reversal occurs.

### (o) Asset 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.

They are stated at the lower of carrying amount and fair value less costs to sell.

### (p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less provision for impairment of doubtful debts (see note 1(m)), except where the receivables are non-interest bearing loans recoverable on demand made to related parties or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less provision for impairment of doubtful debts.

### (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.

## 1. Significant accounting policies (continued)

### (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 from date of deposits. 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.

### (t) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement schemes 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 is recognised as a staff 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.

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).

### (u) Income tax

Income tax for the year comprises current income tax, movements in deferred tax assets and liabilities and withholding tax.

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. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference or tax losses can be utilised.

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.

## 1. Significant accounting policies (continued)

### (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 of debt instrument.

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.

#### *(ii) 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.

## 1. Significant accounting policies (continued)

### (w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 value added tax or other sales tax and is after deduction of any trade discounts.

***(ii) Sales of motor parts, accessories, foodstuff and consumer products***

Revenue arising from the sale of motor parts, accessories, 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 services income***

Revenue arising from logistics service and other services is recognised when the service is rendered to customers.

***(v) 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.

***(vi) Commission income, subsidy income and rebate***

Commission income, subsidy income and rebate is recognised at the time when the goods concerned are sold to customers.

***(vii) Dividend income***

Dividend income from unlisted investments is recognised when the shareholder's rights to receive payment is established.

***(viii) Interest income***

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

## 1. Significant accounting policies (continued)

### (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 differences are recognised in profit or loss.

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.

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 gain or loss on disposal.

### (y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure of the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

## 1. Significant accounting policies (continued)

### (z) Related parties

A party is considered to be related to the Group if the party has the ability, directly or indirectly, to control the Group or exercise significant influence or has joint control over the Group in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be an associate, a joint venture, individuals (being members of key management personnel, significant shareholders and / or their close family members) or other entities including entities which are under the significant influence of related parties of the Group where those parties are individuals.

### (aa) Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided regularly to the Group's senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Segment assets information is not reported or used by the Group's senior executive management for the above purposes.

## 2. Possible impact of new standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2010

Up to the date of issue of these financial statements, the HKICPA has issued a number of new standards, amendments and interpretations which are not yet effective for the current accounting year. The Group has not early adopted them for the year ended 31 December 2010. These include the following which may be relevant to the Group:

- Amendment to HKAS 12, Income Taxes

- HKAS 24 (Revised), Related Party Disclosures

- HKFRS 9, Financial Instruments

- Improvements to HKFRSs 2010

The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations in the period of initial application. So far it is concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position, except for the change in accounting policy arising from the amendments to HKAS 12 which will have a material impact on the period of initial application or comparative periods. As a result of this change in accounting policy, the Group measures any deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the balance sheet date. Previously, deferred tax of these properties was generally measured using the tax rates that would apply as a result of recovery of the asset's value through use.

Based on our preliminary assessment, the adoption of the amendments to HKAS 12 will result in a retrospective restatement of the amounts reported by reducing deferred tax liabilities and increasing the opening balance of retained earnings as of 1 January 2011 of approximately HK$63 million.

## 3. Accounting estimates and judgements

The critical accounting estimates and judgements in applying the Group's accounting policies are described below:

**(a) Valuation of investment properties**

The investment properties were revalued by independent professional qualified valuers on an open 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 profit or loss in future years.

**(b) Income tax**

The Group is subject to income tax in various jurisdictions. Significant judgement is required in determining the worldwide provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is 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.

**(c) 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 cash flows 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 cash flow forecasts would increase or decrease the provision of impairment loss and affect the Group's net asset value.

Impairment loss on doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment loss would affect profit or loss in future years.

**(d) 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. 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.

## 3. Accounting estimates and judgements (continued)

### (e) Provision for product rectification

The Group makes provision for product rectification 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.

### (f) Depreciation and amortisation

Property, plant and equipment and intangible assets, other than investment properties, are depreciated and amortised on a straight-line basis or reducing balance basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation.

### (g) Fair value of assets acquired and liabilities assumed upon acquisition

In connection with acquisitions of subsidiaries, associates and jointly controlled entities, the assets acquired and liabilities assumed are adjusted to their estimated fair values on the date of acquisition. The determination of the values of assets acquired and liabilities assumed involves management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed.

## 4. Turnover

The principal activities of the Group are motor vehicles sales, motor vehicle related business and services, sales of food and consumer products, as well as logistics services. Other business mainly represents property investment and other non-core operations.

Turnover represents the sales value of goods supplied and services rendered to customers. An analysis of turnover is as follows:

| HK$ million | **2010** | 2009 |
|---|---|---|
| Sales of motor vehicles, motor parts, accessories and motor services | **24,640** | 15,650 |
| Sales of food and consumer products | **7,203** | 6,238 |
| Logistics services and other related income | **263** | 233 |
| Revenue from other business | **105** | 88 |
| Total | **32,211** | 22,209 |

In prior years, income from sales of accessories was presented on a net basis within other income. In current year, the Group has changed the basis of presentation of income derived from sales of accessories from a net basis to a gross basis to better reflect the nature of these transactions. Comparative figures have been restated to conform to the new presentation, the Group's turnover and cost of sales for the year ended 31 December 2009 had been increased by HK$78 million and HK$51 million respectively.

## 5. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments:

**(i) Motor and Motor Related Business (Hong Kong & Macao / Mainland China / Other Markets)**

The motor and motor related business mainly consists of the operations of (i) motor vehicle distribution and dealership business, which includes sales of motor vehicles and provision of after-sales services; and (ii) other motor vehicle related business, which includes operation of independent service outlets, original equipment parts trading, used car trading, motor leasing, environmental and engineering businesses, as well as airport and aviation support businesses. The "Other Markets" geographical segment mainly covers business operations in Japan, Singapore, Taiwan and Canada.

**(ii) Food and Consumer Products Business (Hong Kong & Macao / Mainland China / Other Markets)**

The food and consumer products business primarily consists of the operations of (i) trading and distribution of food commodities, distribution of fast moving consumer goods, and retail of food products under DCH Food Mart / DCH Food Mart Deluxe; (ii) distribution of electrical appliances products; and (iii) trading and distribution of other consumer products. The "Other Markets" geographical segment mainly covers business operations in Japan, Singapore and the European market.

**(iii) Logistics Business (Hong Kong & Macao / Mainland China)**

The logistics business includes the provision of a wide range of integrated professional logistics and supply chain management solutions and cold chain management services to customers in Hong Kong, Macao and mainland China.

**(iv) Other Business**

Other business includes the revenues from segments below the quantitative thresholds, which are attributable to four small operating segments namely property business, advertising business, insurance business and other investments. None of these segments has exceeded the quantitative thresholds for determining a reportable segment.

The Group's senior executive management monitors the results attributable to each reportable segment on the following basis:

The segment turnover of the Group is based on business lines and geographical location of customers. Income and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. The inter-segment transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices and in the ordinary course of business.

Performance is measured based on segment result from operation and segment profit after taxation which includes the Group's share of profits and losses of associates and jointly controlled entities. Items not specifically attributable to individual segments, such as corporate expenses (mainly costs of supporting functions that are centrally provided by head office to all operating segments), are not allocated to the reportable segments.

## 5. Segment reporting (continued)

### (a) Segment results

An analysis of the Group's segment results by reportable segment is as follows:

| HK$ million<br>**Year ended 31 December 2010** | Motor and Motor Related Business | | | | Food and Consumer Products Business | | | | Logistics Business | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Hong Kong & Macao | Mainland China | Sub-total | Other Business | Inter-segment elimination | Total |
| Turnover from external customers | 4,214 | 19,350 | 1,076 | 24,640 | 3,437 | 2,862 | 904 | 7,203 | 215 | 48 | 263 | 105 | - | 32,211 |
| Inter-segment turnover | 3 | - | - | 3 | 2 | 1 | - | 3 | 96 | 6 | 102 | 46 | (154) | - |
| **Segment Turnover** | 4,217 | 19,350 | 1,076 | 24,643 | 3,439 | 2,863 | 904 | 7,206 | 311 | 54 | 365 | 151 | (154) | 32,211 |
| **Segment result from operations** | 328 | 953 | 20 | 1,301 | 142 | 71 | (32) | 181 | 21 | 1 | 22 | 67 | - | 1,571 |
| Share of profit / (loss) after tax of associates | - | (2) | - | (2) | - | 23 | - | 23 | - | - | - | - | - | 21 |
| Share of profit after tax of jointly controlled entities | 7 | 8 | - | 15 | 30 | - | - | 30 | - | - | - | 5 | - | 50 |
| Segment profit / (loss) before taxation | 335 | 959 | 20 | 1,314 | 172 | 94 | (32) | 234 | 21 | 1 | 22 | 72 | - | 1,642 |
| Segment income tax | (51) | (243) | (4) | (298) | (28) | (20) | (11) | (59) | (5) | - | (5) | (6) | - | (368) |
| **Segment profit / (loss) after taxation** | 284 | 716 | 16 | 1,016 | 144 | 74 | (43) | 175 | 16 | 1 | 17 | 66 | - | 1,274 |
| ***Reconciliation:*** | | | | | | | | | | | | | | |
| Net valuation gain on investment properties | | | | | | | | | | | | | | 30 |
| Net gain on disposal of land and buildings held for own use | | | | | | | | | | | | | | 122 |
| Net loss on disposal of subsidiaries | | | | | | | | | | | | | | (1) |
| Net gain on disposal of a jointly controlled entity | | | | | | | | | | | | | | 331 |
| Amortisation of fair value adjustment on property, plant and equipment and intangible assets arising from business combinations | | | | | | | | | | | | | | (29) |
| Impairment losses on property, plant and equipment, intangible assets and goodwill | | | | | | | | | | | | | | (106) |
| Impairment loss on lease prepayments | | | | | | | | | | | | | | (1) |
| Net fair value gain on derivative financial instruments | | | | | | | | | | | | | | 5 |
| Share-based payments | | | | | | | | | | | | | | (31) |
| Unallocated corporate expenses | | | | | | | | | | | | | | (165) |
| **Reconciliation items before taxation** | | | | | | | | | | | | | | 155 |
| ***Tax impact:*** | | | | | | | | | | | | | | |
| De-recognition of deferred tax assets (Note 8(a)*(ii)*) | | | | | | | | | | | | | | (21) |
| Tax effect on the above reconciliation items | | | | | | | | | | | | | | 37 |
| **Reconciliation items net of taxation** | | | | | | | | | | | | | | 171 |
| **Profit for the year** | | | | | | | | | | | | | | 1,445 |

## 5. Segment reporting (continued)

### (a) Segment results (continued)

| HK$ million<br>Year ended 31 December 2009 | Motor and Motor Related Business<br>Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Food and Consumer Products Business<br>Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Logistics Business<br>Hong Kong & Macao | Mainland China | Sub-total | Other Business | Inter-segment elimination | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Turnover from external customers | 3,186 | 11,755 | 709 | 15,650 | 3,026 | 2,272 | 940 | 6,238 | 206 | 27 | 233 | 88 | - | 22,209 |
| Inter-segment turnover | 2 | - | - | 2 | 1 | 1 | - | 2 | 91 | 2 | 93 | 37 | (134) | - |
| **Segment Turnover** | 3,188 | 11,755 | 709 | 15,652 | 3,027 | 2,273 | 940 | 6,240 | 297 | 29 | 326 | 125 | (134) | 22,209 |
| **Segment result from operations** | 227 | 581 | 7 | 815 | 133 | 52 | (74) | 111 | 27 | (2) | 25 | 58 | - | 1,009 |
| Share of profit / (loss) after tax of associates | - | (2) | - | (2) | - | 30 | - | 30 | - | - | - | - | - | 28 |
| Share of profit after tax of jointly controlled entities | 4 | 3 | - | 7 | 61 | - | - | 61 | - | - | - | 5 | - | 73 |
| Segment profit / (loss) before taxation | 231 | 582 | 7 | 820 | 194 | 82 | (74) | 202 | 27 | (2) | 25 | 63 | - | 1,110 |
| Segment income tax | (35) | (140) | (3) | (178) | (28) | (13) | (11) | (52) | - | - | - | (4) | - | (234) |
| **Segment profit / (loss) after taxation** | 196 | 442 | 4 | 642 | 166 | 69 | (85) | 150 | 27 | (2) | 25 | 59 | - | 876 |
| ***Reconciliation:*** | | | | | | | | | | | | | | |
| Net valuation loss on investment properties | | | | | | | | | | | | | | (12) |
| Net gain on disposal of an investment property | | | | | | | | | | | | | | 22 |
| Net gain on disposal of land and buildings held for own use | | | | | | | | | | | | | | 56 |
| Net loss on disposal of subsidiaries | | | | | | | | | | | | | | (1) |
| Net gain on disposal of jointly controlled entities | | | | | | | | | | | | | | 5 |
| Amortisation of fair value adjustment on property, plant and equipment and intangible assets arising from business combinations | | | | | | | | | | | | | | (25) |
| Impairment losses on property, plant and equipment and intangible assets | | | | | | | | | | | | | | (14) |
| Net fair value loss on derivative financial instruments | | | | | | | | | | | | | | (11) |
| Unallocated corporate expenses | | | | | | | | | | | | | | (141) |
| **Reconciliation items before taxation** | | | | | | | | | | | | | | (121) |
| ***Tax impact:*** | | | | | | | | | | | | | | |
| De-recognition of deferred tax assets (Note 8(a)*(ii)*) | | | | | | | | | | | | | | (51) |
| Tax effect on the above reconciliation items | | | | | | | | | | | | | | 46 |
| **Reconciliation items net of taxation** | | | | | | | | | | | | | | (126) |
| **Profit for the year** | | | | | | | | | | | | | | 750 |

## 5. Segment reporting (continued)

### (b) Other segment information

The following table set out information about the Group's depreciation and amortisation, interest income and interest expense by reportable segments:

| HK$ million<br>Year ended 31 December 2010 | Motor and Motor Related Business | | | | Food and Consumer Products Business | | | | Logistics Business | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Hong Kong & Macao | Mainland China | Sub-total | Other Business | Total |
| Segmental depreciation and amortisation | 62 | 78 | 10 | 150 | 22 | 5 | 42 | 69 | 15 | 8 | 23 | 6 | 248 |
| Segmental interest income | - | 14 | - | 14 | - | 2 | - | 2 | - | 2 | 2 | - | 18 |
| Segmental interest expense | - | 65 | 3 | 68 | 1 | 22 | 13 | 36 | - | - | - | - | 104 |

| HK$ million<br>Year ended 31 December 2009 | Motor and Motor Related Business | | | | Food and Consumer Products Business | | | | Logistics Business | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Hong Kong & Macao | Mainland China | Other Markets | Sub-total | Hong Kong & Macao | Mainland China | Sub-total | Other Business | Total |
| Segmental depreciation and amortisation | 69 | 60 | 6 | 135 | 20 | 3 | 31 | 54 | 14 | 6 | 20 | 6 | 215 |
| Segmental interest income | - | 9 | 1 | 10 | - | 2 | - | 2 | - | - | - | - | 12 |
| Segmental interest expense | - | 62 | 1 | 63 | 1 | 15 | 18 | 34 | - | - | - | - | 97 |

### (c) Geographic information

The Group operates in three major geographical segments: Hong Kong and Macao, mainland China and other markets. Other markets mainly represent Japan, Singapore, Taiwan and Canada. The geographical segment of turnover from external customers is based on the geographical location of customers. The geographical segment of non-current assets is based on the geographical location of the assets. An analysis of the Group's turnover from external customers and non-current assets (excluding available-for-sale investments and deferred tax assets) by geographical segment is as follows:

| | Turnover from external customers | | Non-current assets | |
|---|---|---|---|---|
| HK$ million | **2010** | 2009 | **2010** | 2009 |
| Hong Kong & Macao | **7,919** | 6,455 | **1,004** | 1,165 |
| Mainland China | **22,260** | 14,055 | **2,636** | 2,114 |
| Other Markets | **2,032** | 1,699 | **567** | 545 |
| Total | **32,211** | 22,209 | **4,207** | 3,824 |

## 6. Other income

| HK$ million | 2010 | 2009 |
|---|---|---|
| Commission income, subsidy income and rebate | **231** | 202 |
| Handling and service charge income | **43** | 21 |
| Interest income from bank deposits | **12** | 12 |
| Other interest income | **3** | – |
| Net gain on disposal of an investment property | **–** | 22 |
| Net gain on disposal of other fixed assets | **5** | 14 |
| Net exchange gain / (loss) | **37** | (1) |
| Net fair value gain / (loss) on foreign currency forward contracts | **8** | (11) |
| Net loss on disposal of subsidiaries | **(1)** | (1) |
| Net gain on changes in non-controlling interests | **–** | 1 |
| Others | **55** | 58 |
| Total | **393** | 317 |

## 7. Profit before taxation

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

| HK$ million | 2010 | 2009 |
|---|---|---|
| **(a) Finance costs** | | |
| Interest on bank advances and other borrowings wholly repayable within five years | **115** | 112 |
| **(b) Staff costs** | | |
| Salaries, wages and other benefits | **1,605** | 1,338 |
| Contributions to defined contribution retirement schemes (Note) | **64** | 66 |
| Share-based payments | **31** | – |
| Total | **1,700** | 1,404 |

Note:
The Group operates various defined contribution retirement schemes for its employees in Hong Kong, mainland China and other locations.

For the employees in Hong Kong, the Group participates in the CITIC Group Mandatory Provident Fund Scheme ("MPF Scheme"). Assets of the MPF Scheme are held separately in funds under the custody of the respective trustees. For employees who joined the Group since May 2003, the Group contributes to the MPF Scheme at 5% of the employee's monthly relevant income up to a maximum of HK$1,000 monthly contribution and, for employees who joined the Group before May 2003, the Group contributes to the MPF Scheme at 5% or 10% of monthly basic salary, with no cap.

Retirement benefits for employees in mainland China and other locations are based primarily on local mandatory requirements.

## 7. Profit before taxation (continued)

| HK$ million | 2010 | 2009 |
|---|---|---|
| **(c) Other items** | | |
| Amortisation: | | |
| – lease prepayments | **9** | 8 |
| – intangible assets | **18** | 15 |
| Depreciation | **249** | 227 |
| Net reversal of write-down of inventories | **(4)** | (41) |
| Impairment losses on: | | |
| – property, plant and equipment | **74** | 12 |
| – intangible assets | **3** | 2 |
| – goodwill | **29** | – |
| – lease prepayments | **1** | – |
| – trade debtors | **1** | 16 |
| – other receivables | **–** | 16 |
| Net loss / (gain) on realised foreign currency forward contracts | **54** | (9) |
| Net fair value loss on interest rate swaps | **3** | – |
| Auditors' remuneration | **22** | 22 |
| Operating lease charges in respect of properties | **359** | 317 |
| Rental income from investment properties less direct outgoings of HK$16 million (2009: HK$15 million) | **(37)** | (39) |

**(d) Net gain on disposal of land and buildings held for own use**

In August 2010, the Group disposed of a property situated in Hong Kong at a consideration of HK$124 million and resulted a net gain on disposal of HK$122 million.

## 8. Income tax

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profit for the year. Taxation outside Hong Kong is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

### (a) Income tax charge represents:

| HK$ million | 2010 | 2009 |
|---|---|---|
| *Current income tax – Hong Kong Profits Tax* | | |
| – Provision for the year | **87** | 63 |
| – Under-provision in previous years | **4** | 3 |
| | **91** | 66 |
| *Current income tax – Outside Hong Kong* | | |
| – Provision for the year | **256** | 148 |
| – Under-provision in previous years | **3** | 1 |
| | **259** | 149 |
| *Deferred tax* | | |
| – Origination and reversal of temporary differences | **(22)** | (30) |
| – De-recognition of deferred tax assets (Note (ii)) | **21** | 51 |
| – Effect of change in tax rate (Note (iii)) | **–** | 1 |
| | **(1)** | 22 |
| *Withholding tax* | **3** | 2 |
| Total | **352** | 239 |

Notes:

(i) Tax payable in the balance sheet is expected to be settled within one year.

(ii) Based on the latest available information, the directors are of the opinion that the utilisation of the tax losses of a subsidiary brought forward from previous years may not be probable. Accordingly, the corresponding deferred tax assets of HK$21 million (2009: HK$51 million) were derecognised during the year ended 31 December 2010.

(iii) In 2009, the Singapore Government enacted a change in the corporate tax rate from 18.0% to 17.0% with effect from the year of assessment 2010.

## 8. Income tax (continued)

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

| HK$ million | **2010** | 2009 |
|---|---|---|
| Profit before taxation | **1,797** | 989 |
| Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **343** | 171 |
| Effect of change in tax rate | **–** | 1 |
| Tax effect of non-deductible expenses | **51** | 43 |
| Tax effect of non-taxable income | **(102)** | (60) |
| Tax effect of utilisation of previously unrecognised tax losses | **(10)** | (7) |
| Tax effect of unused tax losses not recognised | **41** | 37 |
| Tax effect of unrecognised deductible temporary differences | **(3)** | (4) |
| Recognition of deferred tax liabilities of undistributed profits (Note 30(a)) | **1** | 1 |
| Withholding tax | **3** | 2 |
| De-recognition of deferred tax assets in respect of previous years' tax losses | **21** | 51 |
| Under-provision in previous years | **7** | 4 |
| Income tax charge | **352** | 239 |

## 9. Directors' remuneration

Directors' remuneration for the year ended 31 December 2010 is set out below:

| HK$ thousand | Directors' fees | Salaries, allowances and other benefits | Discretionary bonuses | Contributions to defined contribution retirement schemes | Sub-total | Share-based payments (Note (i)) | Total |
|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | |
| Hui Ying Bun | 120 | 2,132 | 10,980 | 187 | 13,419 | 2,393 | 15,812 |
| Chu Hon Fai | 120 | 1,776 | 4,790 | 165 | 6,851 | 1,929 | 8,780 |
| Yip Moon Tong | 120 | 1,725 | 7,990 | 157 | 9,992 | 1,929 | 11,921 |
| Mak Kwing Tim | 120 | 1,657 | 6,160 | 151 | 8,088 | 1,463 | 9,551 |
| Lau Sei Keung | 120 | 1,570 | 6,000 | 145 | 7,835 | 1,463 | 9,298 |
| Tsoi Tai Kwan, Arthur | 120 | 1,597 | 2,850 | 145 | 4,712 | 1,463 | 6,175 |
| Glenn Robert Sturrock Smith | 120 | 2,475 | 2,200 | 73 | 4,868 | 1,463 | 6,331 |
| Wai King Fai, Francis (Note (ii)) | 120 | 1,652 | 2,780 | 12 | 4,564 | 1,197 | 5,761 |
| **Non-executive directors** | | | | | | | |
| Kwok Man Leung | 120 | 40 | – | – | 160 | – | 160 |
| Yin Ke (Note (ii)) | 120 | – | – | – | 120 | – | 120 |
| Fei Yiping (Note (ii)) | 120 | – | – | – | 120 | – | 120 |
| **Independent non-executive directors** | | | | | | | |
| Cheung Kin Piu, Valiant | 120 | 120 | – | – | 240 | – | 240 |
| Hsu Hsung, Adolf | 120 | 120 | – | – | 240 | – | 240 |
| Yeung Yue Man | 120 | 120 | – | – | 240 | – | 240 |
| Total | 1,680 | 14,984 | 43,750 | 1,035 | 61,449 | 13,300 | 74,749 |

Notes:

(i) Details of the share option schemes are set out in note 29.

(ii) Appointed on 1 January 2010.

## 9. Directors' remuneration (continued)

Directors' remuneration for the year ended 31 December 2009 is set out below:

| HK$ thousand | Directors' fees | Salaries, allowances and other benefits | Discretionary bonuses | Contributions to defined contribution retirement schemes | Total |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Hui Ying Bun | 120 | 2,014 | 5,918 | 178 | 8,230 |
| Chu Hon Fai | 120 | 1,718 | 3,390 | 156 | 5,384 |
| Yip Moon Tong | 120 | 1,620 | 4,606 | 150 | 6,496 |
| Mak Kwing Tim | 120 | 1,584 | 4,400 | 144 | 6,248 |
| Lau Sei Keung | 120 | 1,491 | 3,012 | 138 | 4,761 |
| Tsoi Tai Kwan, Arthur | 120 | 1,529 | 2,279 | 138 | 4,066 |
| Glenn Robert Sturrock Smith | 120 | 2,354 | 1,603 | 69 | 4,146 |
| **Non-executive directors** | | | | | |
| Ho Hau Hay, Hamilton (Note) | 120 | – | – | – | 120 |
| Chan Chui Sheung, Stella (Note) | 120 | – | – | – | 120 |
| Kwok Man Leung | 120 | 25 | – | – | 145 |
| **Independent non-executive directors** | | | | | |
| Cheung Kin Piu, Valiant | 120 | 120 | – | – | 240 |
| Hsu Hsung, Adolf | 120 | 120 | – | – | 240 |
| Yeung Yue Man | 120 | 120 | – | – | 240 |
| Total | 1,560 | 12,695 | 25,208 | 973 | 40,436 |

Note: Resigned on 1 January 2010.

## 10. Individuals with highest emoluments

The five highest paid individuals of the Group for the years ended 31 December 2009 and 2010 are also the directors of the Company, whose emoluments are disclosed in note 9.

## 11. Profit attributable to shareholders of the Company

The consolidated profit attributable to shareholders of the Company includes a profit of HK$550 million (2009: HK$275 million) which has been dealt with in the financial statements of the Company.

## 12. Dividends

**(a) Dividends attributable to the year are as follows:**

| HK$ million | 2010 | 2009 |
|---|---|---|
| Interim dividend declared and paid of 10.68 HK cents (2009: 4.51 HK cents) per share | 192 | 81 |
| Final dividend proposed after the balance sheet date of 12.77 HK cents (2009: 11.29 HK cents) per share | 232 | 203 |
| Total | 424 | 284 |

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

**(b) Dividends attributable to the previous year, approved and paid during the year are as follows:**

| HK$ million | 2010 | 2009 |
|---|---|---|
| Final dividend approved and paid of 11.29 HK cents (2009: 2.95 HK cents) per share | 203 | 53 |

## 13. Basic and diluted earnings per share

**(a) Basic earnings per share**

The basic earnings per share is based on the profit attributable to shareholders of the Company of HK$1,411 million (2009: HK$710 million) and the weighted average number of 1,801,403,329 ordinary shares (2009: 1,797,833,000 ordinary shares) in issue during the year which is calculated as follows:

| | Number of ordinary shares | |
|---|---|---|
| | **2010** | 2009 |
| Issued ordinary shares at 1 January | **1,797,833,000** | 1,797,833,000 |
| Effect of share options exercised | **3,570,329** | – |
| Weighted average number of ordinary shares | **1,801,403,329** | 1,797,833,000 |

**(b) Diluted earnings per share**

The diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to the shareholders of the Company of HK$1,411 million and the weighted average number of 1,809,877,019 ordinary shares (diluted) which is calculated as follows:

| | **Number of ordinary shares** |
|---|---|
| Weighted average number of ordinary shares (Note 13(a)) | **1,801,403,329** |
| Effect of deemed issue of shares under the Company's share option schemes | **8,473,690** |
| Weighted average number of ordinary shares (diluted) | **1,809,877,019** |

The diluted earnings per share for the year ended 31 December 2009 is the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

## 14. Fixed assets

### (a) Group

| HK$ million | Land and buildings held for own use | Construction in progress | Others | Sub-total | Investment properties | Total |
|---|---|---|---|---|---|---|
| Note | 14(d) | | 14(e) | | | |
| **Cost or valuation:** | | | | | | |
| At 1 January 2010 | 1,258 | 123 | 1,605 | 2,986 | 808 | 3,794 |
| Exchange adjustments | 54 | 4 | 33 | 91 | 55 | 146 |
| Additions | 67 | 204 | 383 | 654 | – | 654 |
| Transfer to asset held for sale (Note 23(a)) | – | – | – | – | (189) | (189) |
| Transfer to inventories (Note 14(c)) | – | – | (27) | (27) | – | (27) |
| Reclassification | 149 | (188) | 39 | – | – | – |
| Disposals | (1) | – | (113) | (114) | – | (114) |
| Fair value adjustment | – | – | – | – | 30 | 30 |
| At 31 December 2010 | 1,527 | 143 | 1,920 | 3,590 | 704 | 4,294 |
| **Representing:** | | | | | | |
| Cost | 1,527 | 143 | 1,920 | 3,590 | – | 3,590 |
| Valuation | – | – | – | – | 704 | 704 |
| At 31 December 2010 | 1,527 | 143 | 1,920 | 3,590 | 704 | 4,294 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2010 | 273 | – | 950 | 1,223 | – | 1,223 |
| Exchange adjustments | 13 | – | 14 | 27 | – | 27 |
| Charge for the year | 60 | – | 189 | 249 | – | 249 |
| Impairment loss (Note 14(i)) | 59 | – | 15 | 74 | – | 74 |
| Transfer to inventories (Note 14(c)) | – | – | (23) | (23) | – | (23) |
| Written back on disposals | – | – | (75) | (75) | – | (75) |
| At 31 December 2010 | 405 | – | 1,070 | 1,475 | – | 1,475 |
| **Net book value:** | | | | | | |
| At 31 December 2010 | 1,122 | 143 | 850 | 2,115 | 704 | 2,819 |

## 14. Fixed assets (continued)

### (a) Group (continued)

| HK$ million | Land and buildings held for own use | Construction in progress | Others | Sub-total | Investment properties | Total |
|---|---|---|---|---|---|---|
| Note | 14(d) | | 14(e) | | | |
| **Cost or valuation:** | | | | | | |
| At 1 January 2009 | 1,123 | 108 | 1,571 | 2,802 | 910 | 3,712 |
| Exchange adjustments | 8 | – | 6 | 14 | (5) | 9 |
| Additions | 80 | 117 | 238 | 435 | – | 435 |
| Acquisition of subsidiaries | 10 | – | 5 | 15 | – | 15 |
| Reclassification | 53 | (102) | 49 | – | – | – |
| Disposals | (16) | – | (264) | (280) | (85) | (365) |
| Fair value adjustment | – | – | – | – | (12) | (12) |
| At 31 December 2009 | 1,258 | 123 | 1,605 | 2,986 | 808 | 3,794 |
| **Representing:** | | | | | | |
| Cost | 1,258 | 123 | 1,605 | 2,986 | – | 2,986 |
| Valuation | – | – | – | – | 808 | 808 |
| At 31 December 2009 | 1,258 | 123 | 1,605 | 2,986 | 808 | 3,794 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2009 | 216 | – | 952 | 1,168 | – | 1,168 |
| Exchange adjustments | 2 | – | 3 | 5 | – | 5 |
| Charge for the year | 51 | – | 176 | 227 | – | 227 |
| Impairment loss (Note 14(i)) | 6 | – | 6 | 12 | – | 12 |
| Acquisition of subsidiaries | 2 | – | 2 | 4 | – | 4 |
| Written back on disposals | (4) | – | (189) | (193) | – | (193) |
| At 31 December 2009 | 273 | – | 950 | 1,223 | – | 1,223 |
| **Net book value:** | | | | | | |
| At 31 December 2009 | 985 | 123 | 655 | 1,763 | 808 | 2,571 |

## 14. Fixed assets (continued)

**(b) Company**

| HK$ million | Investment properties 2010 | 2009 |
|---|---|---|
| **At valuation:** | | |
| At 1 January | **118** | 166 |
| Additions | **–** | 2 |
| Transfer to asset held for sale (Note 23(b)) | **–** | (53) |
| Fair value adjustment | **10** | 3 |
| At 31 December | **128** | 118 |

**(c)** During the year ended 31 December 2010, certain motor vehicles with carrying amount of HK$4 million were transferred to inventories when they ceased to be rented and became held for sale.

**(d)** The net book value of land and buildings held for own use under finance lease is HK$140 million at 31 December 2010 (2009: HK$143 million).

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

**(f) Properties valuations**

All investment properties of the Group and the Company were revalued at 31 December 2010 by independent professional qualified valuers 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 professional qualified valuers are as follows:

| Investment properties located in | Name of valuers |
|---|---|
| Hong Kong | Knight Frank Petty Limited |
| Mainland China | Knight Frank Petty Limited |
| Japan | Kikuchi Certified Real Estate Appraiser Office |

## 14. Fixed assets (continued)

**(g) An analysis of net book value of properties is as follows:**

| | Group | | Company | |
|---|---|---|---|---|
| HK$ million | **2010** | 2009 | **2010** | 2009 |
| **Investment properties** | | | | |
| In Hong Kong: | | | | |
| – Long term lease | **221** | 349 | **–** | – |
| – Medium term lease | **–** | – | **128** | 118 |
| Outside Hong Kong: | | | | |
| – Freehold properties | **439** | 419 | **–** | – |
| – Medium term lease | **44** | 40 | **–** | – |
| At 31 December | **704** | 808 | **128** | 118 |

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| **Land and buildings held for own use** | | |
| In Hong Kong: | | |
| – Long term lease | **5** | 5 |
| – Medium term lease | **155** | 159 |
| – Short term lease | **9** | 12 |
| Outside Hong Kong: | | |
| – Freehold properties | **55** | 51 |
| – Medium term lease | **825** | 682 |
| – Short term lease | **73** | 76 |
| At 31 December | **1,122** | 985 |

**(h)** Certain buildings situated in mainland China with an aggregate net book value of HK$336 million at 31 December 2010 (2009: HK$172 million) are built on land owned by the Group or leased from third parties in respect of which the Group is in the process of applying for 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.

**(i) Impairment loss**

During the year ended 31 December 2010, the recoverable amount of fixed assets has been assessed. With reference to the recent observable market, the carrying amount of certain fixed assets was written down by HK$74 million (2009: HK$12 million).

## 14. Fixed assets (continued)

### (j) Fixed assets leased out under operating leases

The Group leases out various investment properties and other properties, plant and equipment under operating leases. The leases are renewable at the end of the lease period when all the terms are renegotiated. The operating lease rentals of certain properties contain a contingent rental element which is based on tenants' turnover. The Group's total future minimum lease income under non-cancellable operating leases are receivable as follows:

| | **Group** | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Within 1 year | **79** | 66 |
| After 1 year but within 5 years | **82** | 42 |
| After 5 years | **6** | 1 |
| At 31 December | **167** | 109 |

## 15. Lease prepayments

| HK$ million | Group 2010 | 2009 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **341** | 288 |
| Exchange adjustments | **16** | 2 |
| Additions | **–** | 46 |
| Acquisition of subsidiaries | **–** | 5 |
| Disposals | **(23)** | – |
| At 31 December | **334** | 341 |
| **Accumulated amortisation and impairment:** | | |
| At 1 January | **26** | 18 |
| Exchange adjustments | **1** | – |
| Charge for the year | **9** | 8 |
| Impairment loss | **1** | – |
| Written back on disposals | **(2)** | – |
| At 31 December | **35** | 26 |
| **Net book value:** | | |
| At 31 December | **299** | 315 |

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

| HK$ million | Group 2010 | 2009 |
|---|---|---|
| Outside Hong Kong: | | |
| – Medium term lease | **299** | 295 |
| – Short term lease | **–** | 20 |
| | **299** | 315 |

The lease prepayments of the Group represent cost of land use rights.

## 16. Intangible assets

**Group**

| HK$ million | Car dealerships | Others | Total |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2010 | **265** | **28** | **293** |
| Exchange adjustments | **11** | **1** | **12** |
| Additions | **17** | **–** | **17** |
| At 31 December 2010 | **293** | **29** | **322** |
| **Accumulated amortisation and impairment:** | | | |
| At 1 January 2010 | **27** | **3** | **30** |
| Exchange adjustments | **1** | **–** | **1** |
| Charge for the year | **14** | **4** | **18** |
| Impairment loss | **–** | **3** | **3** |
| At 31 December 2010 | **42** | **10** | **52** |
| **Net book value:** | | | |
| At 31 December 2010 | **251** | **19** | **270** |

| HK$ million | Car dealerships | Others | Total |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2009 | 239 | 15 | 254 |
| Exchange adjustments | 1 | – | 1 |
| Additions through business combination | 25 | 13 | 38 |
| At 31 December 2009 | 265 | 28 | 293 |
| **Accumulated amortisation and impairment:** | | | |
| At 1 January 2009 | 13 | – | 13 |
| Charge for the year | 12 | 3 | 15 |
| Impairment loss | 2 | – | 2 |
| At 31 December 2009 | 27 | 3 | 30 |
| **Net book value:** | | | |
| At 31 December 2009 | 238 | 25 | 263 |

The amortisation charge for the year is included in “administrative expenses” in the consolidated income statement.

## 17. Goodwill

| HK$ million | Group 2010 | 2009 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **287** | 282 |
| Exchange adjustments | **2** | – |
| Acquisition of subsidiaries | **–** | 5 |
| At 31 December | **289** | 287 |
| **Accumulated impairment:** | | |
| At 1 January | **–** | – |
| Impairment loss | **29** | – |
| At 31 December | **29** | – |
| **Carrying amount:** | | |
| At 31 December | **260** | 287 |

**Impairment tests for goodwill**

The carrying amount of goodwill is allocated to the Group's CGU identified as follows:

| HK$ million | | 2010 | 2009 |
|---|---|---|---|
| Motor and Motor Related Business | – Mainland China | **88** | 86 |
| Food and Consumer Products Business | – Hong Kong & Macao | **170** | 170 |
| | – Mainland China | **2** | 31 |
| | | **260** | 287 |

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. Cash flows beyond the five-year period are extrapolated using a zero growth rate, which was used solely for the purposes of the impairment test to arrive at a conservative projection of cash flow in excess of five years and does not reflect management's expectation of these business performances. The growth rates do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using pre-tax discount rates ranging from 17.1% to 20.9% (2009: 15.9% to 19.3%).

Key assumptions used for the value-in-use calculations are the gross margins and growth rates. Management determined the budgeted gross margins and growth rates based on past performance and its expectation for market development.

During the year, our home electrical appliances manufacturing business in mainland China is still affected by the weak demand in Europe and the US after the global financial crisis. As such, the Group recognised a goodwill impairment loss of HK$29 million (2009: Nil) which is determined with reference to the recoverable amount of such CGU.

## 18. Interest in subsidiaries

| HK$ million | Company 2010 | 2009 |
|---|---|---|
| Unlisted shares, at cost | **19** | 19 |
| Amount due from a subsidiary | **84** | 84 |
| At 31 December | **103** | 103 |

The amount due from a subsidiary is unsecured, non-interest bearing and recoverable after one year upon request.

Details of the Company's principal subsidiaries are set out in note 39.

## 19. Interest in associates

| HK$ million | Group 2010 | 2009 |
|---|---|---|
| Share of net assets at 31 December | **203** | 130 |

### (a) Particulars of associates

The following are the principal associates of the Group which, in the opinion of the directors, principally affect the results or 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 associates | Place of incorporation / operation | Authorised and issued share capital / registered and paid-in capital | Proportion of equity interest held by the Group % | Proportion of equity 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 | Registered and paid-in capital of US$10,000,000 | 40.00 | 40.00 | Production of beverage |
| 上海雙滙大昌有限公司 (Shanghai Shineway DCH Co., Ltd.) (Note i) | The People's Republic of China | Registered and paid-in capital of RMB194,750,000 | 26.04 | 26.04 | Production and sales of meat and related food products |
| Lubritech International Holdings Limited ("Lubritech") (Note ii) | Hong Kong | Authorised and issued share capital of HK$168,000,000 at HK$1 each | 40.00 | 40.00 | Investment holding |

Notes:
(i) The official name of the company is in Chinese and the English translation is for reference only.
(ii) Lubritech and its subsidiary are engaged in lubrication oil blending business.

## 19. Interest in associates (continued)

### (b) Summary of financial information on associates

| HK$ million | **2010** | 2009 |
|---|---|---|
| Assets | **960** | 722 |
| Liabilities | **(108)** | (238) |
| Turnover | **1,089** | 1,045 |
| Profit after taxation | **81** | 81 |

## 20. Interest in jointly controlled entities

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Share of net assets | **301** | 257 |
| Goodwill | **8** | 1 |
| Amount due from a jointly controlled entity | **47** | – |
| At 31 December | **356** | 258 |

In January 2010, the Group acquired 50% interest in 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) ("Shenye") at a consideration of RMB126.5 million (approximately HK$144 million). The fair value of net assets and intangible assets acquired are HK$71.8 million and HK$65.3 million respectively. The acquisition resulted in a recognition of goodwill of HK$7.3 million, which is attributable mainly to the benefit of skills and technical talent of the acquired business' work force and the synergies expected to be achieved from integrating the entities into the Group's existing businesses.

In April 2010, the Group extended its interest in 廣東大昌行喜龍二手車交易市場有限公司 (Guangdong Dah Chong Hong – Blissful Dragon Used Motors Trading Limited) ("Blissful") from 40% to 50% at a consideration of HK$7.3 million. Blissful is engaged in sales of used motor vehicles and provision of after sales services.

In July 2010, the Group disposed of its entire 50% interest in Shiseido Dah Chong Hong Cosmetics Limited ("Shiseido DCH") to Shiseido Company, Limited ("Shiseido Japan"), at a consideration of HK$500 million. Shiseido DCH is engaged in the management, operation, sales, marketing and brand development of Shiseido Japan's products in Hong Kong, Macao and the Guangdong province in the People's Republic of China. The transaction resulted a gain on disposal of HK$331 million.

## 20. Interest in jointly controlled entities (continued)

### (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 or 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 entities | Place of incorporation / operation | Registered and paid-in capital | Proportion of equity interest held by the Group % | Proportion of equity interest held by a subsidiary % | Principal activities |
|---|---|---|---|---|---|
| 北京中遠大昌汽車服務有限公司 COSCO – DCH (Beijing) Motor Services Co., Ltd. | The People's Republic of China | RMB80,000,000 | 50.00 | 50.00 | 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 | RMB4,000,000 | 24.50 | 50.00 | 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 (DAS Nordisk Eastern Aviation Equipment Ltd.) (Note i) | The People's Republic of China | RMB4,000,000 | 24.50 | 50.00 | Manufacture and distribution of air cargo equipment and related spare parts |
| 北京北汽眾運汽車貿易有限公司 (Beijing Beiqi Zhongyun Motor Trading Co., Ltd.) (Note i) | The People's Republic of China | RMB28,000,000 | 50.00 | 50.00 | Property investment |
| 深圳市深業實業有限公司 (Shenzhen Shenye Shiye Limited) (Notes i and ii) | The People's Republic of China | RMB100,000,000 | 50.00 | 50.00 | Investment holding |
| 廣東大昌行喜龍二手車交易市場有限公司 (Guangdong Dah Chong Hong – Blissful Dragon Used Motors Trading Limited) (Note i) | The People's Republic of China | RMB19,220,000 | 50.00 | 50.00 | Sales of used motor vehicles and provision of after sales services |

Notes:

(i) The official name of the company is in Chinese and the English translation is for reference only.

(ii) Shenye and its subsidiaries are engaged in sales of motor vehicles and spare parts, provision of after-sales services and conducting customer surveys for the manufacturers or suppliers.

## 20. Interest in jointly controlled entities (continued)

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

| HK$ million | **2010** | 2009 |
|---|---|---|
| Non-current assets | **268** | 169 |
| Current assets | **553** | 380 |
| Current liabilities | **(496)** | (292) |
| Non-current liability | **(24)** | – |
| Net assets | **301** | 257 |
| Income | **2,034** | 781 |
| Expenses | **(1,969)** | (692) |
| Profit before taxation | **65** | 89 |
| Income tax | **(15)** | (16) |
| Profit after taxation | **50** | 73 |
| Share of jointly controlled entities' capital commitments | | |
| – Authorised but not contracted for | **33** | – |
| – Contracted but not provided for | **4** | – |

## 21. Available-for-sale investments

| | **Group** | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Unlisted investments at 31 December | **8** | 5 |

## 22. Inventories

**(a)** Inventories in the consolidated balance sheet represent:

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Finished goods | **3,581** | 2,526 |
| Work-in-progress | **34** | 53 |
| Raw materials | **27** | 42 |
| At 31 December | **3,642** | 2,621 |

**(b)** The analysis of the amount of inventories recognised as cost of sales is as follows:

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Carrying amount of inventories sold | **26,936** | 18,195 |
| Write-down of inventories | **22** | 20 |
| Reversal of write-down of inventories | **(26)** | (61) |
| Total | **26,932** | 18,154 |

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

## 23. Asset held for sale

**(a)** **Group**
At 31 December 2010, an investment property situated in Hong Kong with a carrying amount of HK$189 million is classified as asset held for sale following the Group's plan to dispose of the property.

**(b)** **Company**
At 31 December 2009, an investment property situated in Hong Kong with a carrying amount of HK$53 million is classified as asset held for sale following the Company's plan to dispose of the property.

## 24. Trade and other receivables

| HK$ million | Note | Group 2010 | Group 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|---|
| Trade debtors and bills receivable | | **2,107** | 1,489 | **–** | – |
| Less: provision for impairment of doubtful debts | 24(b) | **(64)** | (61) | **–** | – |
| | | **2,043** | 1,428 | **–** | – |
| Other receivables, deposits and prepayments | | **2,292** | 1,436 | **1** | 1 |
| Amounts due from subsidiaries | 24(e) | **–** | – | **3,554** | 3,168 |
| Amounts due from fellow subsidiaries | 24(d) | **2** | 1 | **–** | – |
| Amounts due from associates | 24(d) | **7** | 27 | **–** | – |
| Amounts due from jointly controlled entities | 24(d) | **176** | 181 | **–** | – |
| Loan to a shareholder of a jointly controlled entity | 24(f) | **106** | – | **–** | – |
| Derivative financial instruments | | **8** | 2 | **–** | – |
| At 31 December | | **4,634** | 3,075 | **3,555** | 3,169 |

The amount of the Group's trade and other receivables expected to be recovered after more than one year is HK$52 million (2009: HK$52 million). The remaining balances of trade and other receivables are expected to be recovered within one year.

### (a) Ageing analysis

At the balance sheet date, the ageing analysis of trade debtors and bills receivable based on the invoice date (net of provision for impairment of doubtful debts) is as follows:

| HK$ million | Group 2010 | Group 2009 |
|---|---|---|
| Within 3 months | **1,968** | 1,357 |
| More than 3 months but within 1 year | **70** | 61 |
| Over 1 year | **5** | 10 |
| At 31 December | **2,043** | 1,428 |

The Group grants credit to its customers of the major reportable segments as below:

| **Reportable segments** | **Credit terms in general** |
|---|---|
| Motor and Motor Related Business | Cash on delivery to 90 days |
| Food and Consumer Products Business | 15 to 90 days |
| Logistics Business | 30 to 60 days |

## 24. 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 | **2010** | 2009 |
| At 1 January | **61** | 45 |
| Exchange adjustments | **3** | – |
| Impairment loss provided | **1** | 16 |
| Uncollectible amounts written off | **(1)** | – |
| At 31 December | **64** | 61 |

At 31 December 2010, there were certain trade debtors with a carrying amount of HK$43 million (2009: HK$9 million) related to customers in financial difficulties of which only a portion of the balance is considered recoverable. They were individually determined to be partially impaired and an impairment loss of HK$10 million (2009: HK$8 million) was recognised in profit or loss. The Group does not hold any collateral over these balances.

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

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Included in the Group's trade debtors and bills receivable are balances with a carrying amount of HK$82 million at 31 December 2010 (2009: HK$95 million) which are past due 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 | **2010** | 2009 |
| Overdue for within 3 months | **61** | 79 |
| Overdue for more than 3 months but within 1 year | **17** | 15 |
| Overdue over 1 year | **4** | 1 |
| At 31 December | **82** | 95 |

**(d)** The amounts due from fellow subsidiaries, associates and jointly controlled entities of the Group are unsecured, non-interest bearing and recoverable on demand.

## 24. Trade and other receivables (continued)

**(e)** The amounts due from subsidiaries of the Company are unsecured, non-interest bearing and recoverable on demand, except for an amount of HK$2,499 million (2009: HK$2,089 million) which is interest bearing at 1 week HIBOR per annum for the years ended 31 December 2009 and 2010.

**(f)** At 31 December 2010, the Group had a loan to a shareholder of a jointly controlled entity of HK$106 million (2009: Nil). The loan is secured by equity interest in the jointly controlled entity, interest bearing at 4.86% per annum and recoverable within one year.

## 25. Cash and cash equivalents

| | | Group | | Company | |
|---|---|---|---|---|---|
| HK$ million | Note | **2010** | 2009 | **2010** | 2009 |
| Cash and bank deposits | | **1,991** | 1,895 | **141** | 179 |
| Less: | | | | | |
| Bank deposits with maturity over three months from date of deposit | | **(3)** | – | **–** | – |
| Pledged deposits | 26(d) | **(314)** | (239) | **–** | – |
| Bank overdrafts | 26(b) | **(2)** | (9) | **–** | – |
| Cash and cash equivalents | | **1,672** | 1,647 | **141** | 179 |

Included in cash and cash equivalents of the Group totalling HK$1,068 million (2009: HK$898 million) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of mainland China is subject to exchange restrictions imposed by the government of the People's Republic of China.

## 26. Borrowings

| | | Group | | Company | |
|---|---|---|---|---|---|
| HK$ million | Note | **2010** | 2009 | **2010** | 2009 |
| Bank loans and overdrafts | 26(a) and (b) | **3,135** | 2,380 | **885** | 700 |
| Other loans | 26(c) | **167** | 56 | **–** | – |
| At 31 December | | **3,302** | 2,436 | **885** | 700 |

## 26. Borrowings (continued)

**(a)** The bank loans and overdrafts are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| HK$ million | **2010** | 2009 | **2010** | 2009 |
| Within 1 year or on demand | **2,410** | 1,985 | **160** | 475 |
| After 1 year but within 2 years | **200** | 170 | **200** | – |
| After 2 years but within 5 years | **525** | 225 | **525** | 225 |
| | **725** | 395 | **725** | 225 |
| At 31 December | **3,135** | 2,380 | **885** | 700 |

**(b)** Analysis of the bank loans and overdrafts are as follows:

| | | Group | | Company | |
|---|---|---|---|---|---|
| HK$ million | Note | **2010** | 2009 | **2010** | 2009 |
| Bank overdrafts | 25 | | | | |
| – unsecured | | **2** | 9 | **–** | – |
| | | **2** | 9 | **–** | – |
| Bank loans | | | | | |
| – secured | | **426** | 219 | **–** | – |
| – unsecured | | **2,707** | 2,152 | **885** | 700 |
| | | **3,133** | 2,371 | **885** | 700 |
| At 31 December | | **3,135** | 2,380 | **885** | 700 |

**(c)** **Other loans**

Other loans are secured by inventories and other deposits and repayable within one year or on sales of designated inventories.

Certain other loans are secured by personal and corporate guarantees granted by holders of non-controlling interests.

## 26. Borrowings (continued)

**(d)** Certain of the Group's assets are pledged to secure loans and banking facilities granted to certain subsidiaries as follows:

| HK$ million | Note | 2010 | 2009 |
|---|---|---|---|
| Bank deposits | 25 | **314** | 239 |
| Trade and other receivables | | **268** | 25 |
| Inventories | | **284** | 170 |
| Lease prepayments and property, plant and equipment | | **289** | 365 |
| At 31 December | | **1,155** | 799 |

The Company's and certain subsidiaries' unsecured bank loans are subject to the fulfillment of covenants mainly 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. At 31 December 2009 and 2010, none of the covenants relating to drawn down facilities had been breached (refer to note 31(k)).

## 27. Trade and other payables

| | | Group | | Company | |
|---|---|---|---|---|---|
| HK$ million | Note | 2010 | 2009 | 2010 | 2009 |
| Trade creditors and bills payable | 27(a) | **1,793** | 1,460 | **–** | – |
| Other payables and accrued charges | | **2,009** | 1,387 | **9** | 15 |
| Provision for product rectification | 28 | **56** | 46 | **–** | – |
| Amounts due to subsidiaries | 27(c) | **–** | – | **209** | 356 |
| Amounts due to associates | 27(b) | **1** | – | **–** | – |
| Amounts due to jointly controlled entities | 27(b) | **15** | 9 | **–** | – |
| Amounts due to holders of non-controlling interests | | **112** | 83 | **–** | – |
| Derivative financial instruments | | **18** | 17 | **3** | – |
| At 31 December | | **4,004** | 3,002 | **221** | 371 |

Apart from certain trade and other payables of the Group at 31 December 2010 of HK$50 million (2009: HK$57 million), 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.

## 27. Trade and other payables (continued)

**(a)** At the balance sheet date, the ageing analysis of trade creditors and bills payable based on due date is as below:

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Current or within 1 month | **1,721** | 1,392 |
| More than 1 month but within 3 months | **55** | 49 |
| More than 3 months but within 6 months | **9** | 5 |
| Over 6 months | **8** | 14 |
| At 31 December | **1,793** | 1,460 |

**(b)** The amounts due to associates and jointly controlled entities of the Group are unsecured, non-interest bearing and repayable on demand.

**(c)** The amounts due to subsidiaries of the Company are unsecured, non-interest bearing and repayable on demand, except for an amount of HK$40 million (2009: HK$34 million) which is interest bearing at 1 month HIBOR per annum for the years ended 31 December 2009 and 2010.

## 28. Provision for product rectification

Included in trade and other payables (Note 27) is provision for product rectification as follows:

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| At 1 January | **46** | 51 |
| Exchange adjustments | **1** | – |
| Additional provisions made | **22** | 8 |
| Provisions utilised | **(13)** | (13) |
| At 31 December | **56** | 46 |

Under the terms of certain of the Group's sales agreements with customers and service agreements with vehicle manufacturers, the Group agrees to rectify product defects within a period not more than five years from the date of sale. Provision is established to meet liabilities as they fall due and made based on the 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 it is probable that an outflow of resources will be required to settle the claim.

## 29. Equity compensation benefits

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

CITIC Pacific Limited ("CITIC Pacific"), the intermediate holding company of the Company, adopted the CITIC Pacific Share Incentive Plan 2000 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 share options over CITIC Pacific's shares.

No employment benefit cost or obligation is recognised in the consolidated financial statements for the years ended 31 December 2009 and 2010 in respect of the above-mentioned share options.

**(b) Share Option Schemes of the Company**

The Company adopted both the Pre-IPO Share Option Scheme ("Pre-IPO Scheme") and the Post-IPO Share Option Scheme ("Post-IPO Scheme") on 28 September 2007 under which the board of the Company may offer share options to any employees, officers or directors of the Company or any of its subsidiaries to subscribe for the Company's shares on payment of HK$1 from the grantee for acceptance of the offer. Each option entitles the holder to subscribe for one ordinary share in the Company. All share options granted are fully vested on the date of grant and are then exercisable in whole or in part within 5 years from the date of grant.

| Date of grant | Number of share options granted | Exercise price per share | Number of share options outstanding at 31 December | |
|---|---|---|---|---|
| | | HK$ | **2010** | 2009 |
| Pre-IPO Scheme | | | | |
| – 3 October 2007 | 18,000,000 | 5.880 | **7,425,000** | 16,900,000 |
| Post-IPO Scheme | | | | |
| – 7 July 2010 | 23,400,000 | 4.766 | **16,100,000** | – |

***(i) The number and weighted average exercise prices of share options are as follows:***

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average exercise price per share** | **Number of share options** | Weighted average exercise price per share | Number of share options |
| | HK$ | ('000) | HK$ | ('000) |
| Outstanding at 1 January | **5.880** | **16,900** | 5.880 | 17,400 |
| Granted during the year | **4.766** | **23,400** | – | – |
| Exercised during the year | **5.392** | **(16,675)** | – | – |
| Lapsed during the year | **5.880** | **(100)** | 5.880 | (500) |
| Outstanding at 31 December | **5.118** | **23,525** | 5.880 | 16,900 |
| Exercisable at 31 December | **5.118** | **23,525** | 5.880 | 16,900 |

## 29. Equity compensation benefits (continued)

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

***(i) The number and weighted average exercise prices of share options are as follows: (continued)***

The weighted average share price at the date of exercise of the share options during the year was HK$8.708 (2009: not applicable).

The share options outstanding at 31 December 2010 had an exercise price of HK$5.880 or HK$4.766 (2009: HK$5.880) and a weighted average remaining life of 3.6 years (2009: 2.8 years).

***(ii) Fair value of share options and assumptions***

The fair value of the share options granted under the Post-IPO Scheme during the year ended 31 December 2010 measured at the date of grant of 7 July 2010 was HK$1.33 per share based on the following assumptions using the Binomial Lattice Model:

| | |
|---|---|
| – Share price at the grant date | HK$4.610 |
| – Exercise price | HK$4.766 |
| – Expected volatility of the Company's share price per annum | 45% |
| – Expected average share option life | 3.8 years |
| – Expected dividend yield per annum | 3% |
| – Risk-free interest rate per annum (based on Hong Kong Exchange Fund Notes) | 1.15% |

The expected volatility and dividend yield is based on historical volatility and dividend yields. Changes in the above assumptions could materially affect the share options' fair value estimate.

## 30. Deferred tax assets and liabilities

### (a) Deferred tax assets and liabilities recognised

**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 | Revaluation arising from business combinations (other than investment properties) | Revaluation of investment properties | Provisions | Tax losses | Undistributed profits (Note 8(b)) | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 57 | 49 | 166 | (41) | (103) | 14 | 142 |
| Exchange adjustments | – | – | (2) | – | – | 2 | – |
| Effect of change in tax rate (Note 8(a)) | – | – | – | 1 | – | – | 1 |
| Charged / (credited) to the consolidated income statement (Note 8(a)) | 3 | (2) | (25) | 5 | 39 | 1 | 21 |
| At 31 December 2009 | 60 | 47 | 139 | (35) | (64) | 17 | 164 |
| **At 1 January 2010** | **60** | **47** | **139** | **(35)** | **(64)** | **17** | **164** |
| **Exchange adjustments** | **5** | **2** | **10** | **(4)** | **–** | **1** | **14** |
| **Charged / (credited) to the consolidated income statement (Note 8(a))** | **1** | **(18)** | **(3)** | **(8)** | **26** | **1** | **(1)** |
| **At 31 December 2010** | **66** | **31** | **146** | **(47)** | **(38)** | **19** | **177** |

Represented by:

| HK$ million | 2010 | 2009 |
|---|---|---|
| Deferred tax assets | **(46)** | (40) |
| Deferred tax liabilities | **223** | 204 |
| At 31 December | **177** | 164 |

## 30. Deferred tax assets and liabilities (continued)

**(a) Deferred tax assets and liabilities recognised (continued)**

**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 | Depreciation allowance in excess of related depreciation | Revaluation of investment properties | Total |
|---|---|---|---|
| At 1 January 2009 | 1 | 14 | 15 |
| (Credited) / charged to income statement | (1) | 1 | – |
| At 31 December 2009 | – | 15 | 15 |
| **At 1 January 2010** | **–** | **15** | **15** |
| **Credited to income statement** | **–** | **(7)** | **(7)** |
| **At 31 December 2010** | **–** | **8** | **8** |

**(b) Deferred tax assets not recognised**

At 31 December 2010, the Group has not recognised deferred tax assets in respect of the cumulative tax losses of HK$889 million (2009: HK$660 million) as utilisation of these tax losses may not be probable. Tax losses in certain tax jurisdictions of HK$658 million (2009: HK$453 million) will expire within the next five years. The remaining balance of tax losses has no expiry date under the current tax legislation.

**(c) Deferred tax liabilities not recognised**

At 31 December 2010, temporary differences relating to the undistributed profits of subsidiaries amounted to HK$2,193 million (2009: HK$1,387 million). Deferred tax liabilities of HK$245 million (2009: HK$185 million) have not been recognised in respect of the tax payable upon the distribution of these undistributed profits as the Company controls the dividend policy of these subsidiaries and it has been determined that these undistributed profits will not be distributed in the foreseeable future.

## 31. Capital and reserves

### (a) Share capital

| | 2010 Number of shares (in million) | 2010 HK$ million | 2009 Number of shares (in million) | 2009 HK$ million |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares of HK$0.15 each | **4,000** | **600** | 4,000 | 600 |
| **Ordinary shares, issued and fully paid:** | | | | |
| At 1 January | **1,798** | **270** | 1,798 | 270 |
| Shares issued under share option schemes | **17** | **2** | – | – |
| At 31 December | **1,815** | **272** | 1,798 | 270 |

### (b) Share premium

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

### (c) General reserve

(i) Pursuant to articles of association of certain subsidiaries of the Group incorporated in mainland China, Macao and Japan, these subsidiaries are required to transfer part of their profits after taxation to the general reserve.

For the subsidiaries in mainland China, 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.

(ii) When a business combination is achieved in stages, the fair value adjustment relating to previously held interest of the Group at the acquisition date is included in general reserve.

### (d) Capital reserve

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

### (e) Statutory surplus reserve

Pursuant to the relevant rules and regulations in mainland China, those subsidiaries which are domestic enterprises in mainland China are required to transfer no less than 10% of their profit after taxation, as determined under accounting regulations in 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.

## 31. Capital and reserves (continued)

**(f) 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.

**(g) Share option reserve**

The share option reserve comprises the fair value of the number of unexercised share options granted to employees, officers or directors of the Company or any of its subsidiaries under the Company's Pre-IPO Scheme and Post-IPO Scheme.

**(h) 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.

**(i) 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.

**(j) Distributable reserves**

Excluding the undistributable reserve of HK$44 million (2009: HK$87 million) which represents accumulated valuation gain on investment properties included in the Company's retained profits, distributable reserves of the Company at 31 December 2010 amounted to HK$1,376 million (2009: HK$1,178 million).

**(k) Capital management**

The Group's primary objectives are to safeguard its ability to continue as a going concern, 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 optimise 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 debts.

Consistent with industry practices, the Group monitors its capital structure by reference to the gearing ratio. The gearing ratio is defined as net debt divided by total capital. Net debt is calculated as total 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.

During 2010, the Group's strategy, which was consistent with 2009, was to maintain the gearing ratio below 40%.

## 31. Capital and reserves (continued)

### (k) Capital management (continued)

The gearing ratios at 31 December 2009 and 2010 were as follows:

| | | Group | |
|---|---|---|---|
| HK$ million | Note | **2010** | 2009 |
| Total borrowings | 26 | **3,302** | 2,436 |
| Less: cash and bank deposits | 25 | **(1,991)** | (1,895) |
| **Net debt** | | **1,311** | 541 |
| Shareholders' funds | | **6,804** | 5,457 |
| **Total capital** | | **8,115** | 5,998 |
| **Gearing ratio** | | **16.2%** | 9.0% |

Major financial covenants for the committed banking facilities are as follows:

| | |
|---|---|
| Shareholders' funds | > or = HK$2,500 million |
| Net debt | < Shareholders' funds |
| Current assets | > Current liabilities |

At 31 December 2009 and 2010, the Group had complied with all of the above financial covenants.

## 32. Business combinations

(i) In March 2010, the Group acquired the remaining 40% interest in Regal Heights Limited, which held 76.77% interest in 上海大昌江南鳳有限公司 (Shanghai DCH Jiangnanfeng Co., Ltd.) ("JNF") at a consideration of HK$12 million. The Group intends to develop the business of JNF into an upstream fast moving consumer goods / food processing base in mainland China. The acquisition resulted in a release of non-controlling interests of approximately HK$14 million at the acquisition date.

(ii) In May 2010, the Group extended its interest in 上海山隆實業有限公司 (Shanghai Sunny Life Enterprise) ("Sunny Life") from 60% to 71% at a consideration of RMB7 million. Sunny Life is engaged in food trading business in mainland China. The acquisition resulted in a release of non-controlling interests of approximately HK$7 million at the acquisition date.

(iii) In November 2010, the Group extended its interest in 雲南聯致汽車服務有限公司 (Yunnan Lianzhi Motors Service Limited) ("Lianzhi") from 80% to 100% at a consideration of RMB1 million. Lianzhi is engaged in sales of motor vehicles. The acquisition resulted in a release of negative non-controlling interests of approximately HK$2 million at the acquisition date.

## 32. Business combinations (continued)

(iv) The above acquisitions had the following effect on the Group's assets and liabilities on the acquisition date:

| HK$ million | Motor and Motor Related Business | Food and Consumer Products Business | Total |
|---|---|---|---|
| Non-controlling interests | (2) | 21 | 19 |
| Fair value of net assets acquired | (2) | 21 | 19 |
| General reserve | 3 | (1) | 2 |
| **Net cash outflow** | **1** | **20** | **21** |

## 33. Financial risk management and fair values

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. The Group 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.

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 the Group does not expect any significant credit risk.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet. Except for the financial guarantees given by the Company as set out in note 35, the Group or the Company does not provide any other guarantees which would expose the Group or the Company to credit risk.

## 33. Financial risk management and fair values (continued)

### (b) Liquidity risk

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

Due to market limitations and regulatory constraints, operating entities outside Hong Kong are responsible for their own cash management and risk management which are monitored by head office. Financing activities for operating entities outside Hong Kong are reviewed and approved by head office before execution.

Head office would 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 their liquidity requirements.

The table below analyses the Group's and the Company's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed based on contractual rates or, for floating rates, based on current rates ruling at the balance sheet date):

**Group**

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| HK$ million | **Total** | **Within 1 year or on demand** | **More than 1 year but within 2 years** | **More than 2 years but within 5 years** | Total | Within 1 year or on demand | More than 1 year but within 2 years | More than 2 years but within 5 years |
| Borrowings | **(3,536)** | **(2,790)** | **(214)** | **(532)** | (2,485) | (2,081) | (177) | (227) |
| Trade and other payables | **(4,004)** | **(4,004)** | **–** | **–** | (3,002) | (3,002) | – | – |
| | **(7,540)** | **(6,794)** | **(214)** | **(532)** | (5,487) | (5,083) | (177) | (227) |
| **Derivatives settled gross:** | | | | | | | | |
| Foreign currency forward contracts: | | | | | | | | |
| – outflow | **(1,418)** | **(1,418)** | **–** | **–** | (1,120) | (1,120) | – | – |
| – inflow | **1,406** | **1,406** | **–** | **–** | 1,101 | 1,101 | – | – |
| | **(12)** | **(12)** | **–** | **–** | (19) | (19) | – | – |

## 33. Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

**Company**

| HK$ million | 2010 Total | 2010 Within 1 year or on demand | 2010 More than 1 year but within 2 years | 2010 More than 2 years but within 5 years | 2009 Total | 2009 Within 1 year or on demand | 2009 More than 1 year but within 2 years | 2009 More than 2 years but within 5 years |
|---|---|---|---|---|---|---|---|---|
| Borrowings | **(921)** | **(175)** | **(214)** | **(532)** | (713) | (484) | (2) | (227) |
| Trade and other payables | **(221)** | **(221)** | **–** | **–** | (371) | (371) | – | – |
| | **(1,142)** | **(396)** | **(214)** | **(532)** | (1,084) | (855) | (2) | (227) |
| **Financial guarantees issued:** | | | | | | | | |
| Maximum amount guaranteed (Note 35) | **(2,567)** | **(2,547)** | **(18)** | **(2)** | (2,186) | (1,968) | (178) | (40) |

### (c) Interest rate risk

The Group aims to maintain a suitable proportion 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 and 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.

At 31 December 2010, the Group and the Company had outstanding interest rate swaps with a notional contract amount of HK$225 million (2009: HK$300 million) to reduce the impact of interest rate fluctuation on the unsecured bank borrowings of HK$825 million (2009: HK$700 million). The swaps will be matured in 2012 and have fixed swap rates ranging from 2.71% to 3.06% per annum (2009: 3.84% to 4.11% per annum). At 31 December 2010, the Group recognised the fair value of outstanding interest rate swaps of HK$3 million liabilities (2009: Nil) as derivative financial instruments.

***Sensitivity analysis***

At 31 December 2010, 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 taxation and retained profits by approximately HK$11 million (2009: HK$5 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 year until the next balance sheet date. The analysis was performed on the same basis for 2009.

## 33. Financial risk management and fair values (continued)

### (d) Currency risk

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 currencies 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. All of the foreign currency forward contracts have maturities of less than one year after the balance sheet date. At 31 December 2010, the Group had foreign currency forward contracts hedging forecast transactions with a fair value of HK$7 million liabilities (2009: HK$15 million liabilities) recognised as derivative financial instruments.

The following table details the Group'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**

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| in million | United States dollars | Renminbi | Euros | Japanese Yen | Pound Sterling | Hong Kong dollars |
| Trade and other receivables | 8 | 19 | – | 645 | 2 | – |
| Cash and bank deposits | 12 | 1 | 1 | 471 | – | 60 |
| Borrowings | (2) | – | – | – | – | – |
| Trade and other payables | (23) | (5) | (1) | (666) | (1) | – |
| Net exposure arising from recognised assets and liabilities | (5) | 15 | – | 450 | 1 | 60 |
| Highly probable forecast purchases | (7) | – | (3) | (2,535) | (153) | – |
| Notional amounts of foreign currency forward contracts | 6 | – | 2 | 1,084 | 100 | – |
| Net exposure arising from forecast transactions | (1) | – | (1) | (1,451) | (53) | – |
| Overall net exposure | (6) | 15 | (1) | (1,001) | (52) | 60 |

## 33. Financial risk management and fair values (continued)

### (d) Currency risk (continued)

**Group (continued)**

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| in million | United States dollars | Renminbi | Euros | Japanese Yen | Pound Sterling | Hong Kong dollars |
| Trade and other receivables | 15 | 10 | 3 | 1,424 | 1 | – |
| Cash and bank deposits | 20 | – | 3 | 685 | – | 20 |
| Trade and other payables | (9) | (4) | (8) | (644) | (1) | – |
| Net exposure arising from recognised assets and liabilities | 26 | 6 | (2) | 1,465 | – | 20 |
| Highly probable forecast purchases | (8) | – | (4) | (2,196) | (90) | – |
| Notional amounts of foreign currency forward contracts | 4 | – | 4 | 1,900 | 69 | – |
| Net exposure arising from forecast transactions | (4) | – | – | (296) | (21) | – |
| Overall net exposure | 22 | 6 | (2) | 1,169 | (21) | 20 |

## 33. Financial risk management and fair values (continued)

### (d) Currency risk (continued)

***Sensitivity analysis***

The following table indicates the change in the Group's profit after taxation and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date:

**Group**

| | **2010** | | 2009 | |
|---|---|---|---|---|
| HK$ million | **Increase in foreign exchange rates** | **Positive / (negative) effect on profit after taxation and retained profits** | Increase in foreign exchange rates | Positive / (negative) effect on profit after taxation and retained profits |
| Renminbi | **5%** | **1** | 5% | – |
| Euros | **5%** | **(1)** | 5% | (1) |
| Japanese Yen | **5%** | **(5)** | 5% | 5 |
| Pound Sterling | **5%** | **(31)** | 5% | (13) |

The sensitivity analysis above 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 the 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 year until the next balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would not be materially affected by any change 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 taxation measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling at the balance sheet date for presentation purposes. The changes in foreign exchange rate only have insignificant effect on the other components of consolidated equity. The analysis was performed on the same basis for 2009.

## 33. Financial risk management and fair values (continued)

**(e) Fair value**

***(i) Fair value estimation***

The following summarises the major methods used in estimating the fair values of financial instruments.

All financial instruments are carried at amounts not materially different from their fair values at 31 December 2009 and 2010 except for the amounts due from / to subsidiaries, fellow subsidiaries, associates and jointly controlled entities which are recoverable / repayable on demand. Given these terms, it is not meaningful to disclose the fair value of such balances.

Foreign currency forward contracts are marked to market using the foreign exchange forward rates ruling at the balance sheet date.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swaps at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counter parties.

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The present value of future cash flows, discounted at current market interest rates for similar financial instruments of interest bearing bank borrowings are reasonable estimation of their fair values.

***(ii) Financial instruments carried at fair value***

The fair value of each financial instrument is categorised across three levels of the "fair value hierarchy" defined in HKFRS 7, with the fair value categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 31 December 2010, the outstanding foreign currency forward contracts and interest rate swaps of the Group fall into Level 2 of the fair value hierarchy described above.

## 34. Commitments

### (a) Capital commitments

Capital commitments outstanding at the balance sheet date not provided for in the financial statements are as follows:

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Contracted for | | |
| – Capital expenditure | **129** | 100 |
| – Investment in an associate | **–** | 41 |
| – Investment in a jointly controlled entity | **–** | 41 |
| – Others | **–** | 8 |
| At 31 December | **129** | 190 |
| Authorised but not contracted for | | |
| – Capital expenditure | **245** | 246 |
| – Others | **46** | 12 |
| At 31 December | **291** | 258 |

### (b) Operating lease commitments

The Group is the lessee in respect of various properties, plant and equipment held under operating leases. At 31 December 2010, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | Group | |
|---|---|---|
| HK$ million | **2010** | 2009 |
| Within 1 year | **268** | 250 |
| After 1 year but within 5 years | **404** | 415 |
| After 5 years | **407** | 269 |
| At 31 December | **1,079** | 934 |

The leases are renewable at the end of the lease period when all the terms are renegotiated.

## 35. Contingent liabilities

At 31 December 2010, the Company has issued the following guarantees to banks in respect of banking facilities granted to and utilised by the following parties:

**Company**

| HK$ million | 2010 Granted | 2010 Utilised | 2009 Granted | 2009 Utilised |
|---|---|---|---|---|
| Subsidiaries | **5,806** | **2,567** | 5,010 | 2,186 |

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.

At the balance sheet date, the directors do not consider it is probable that a claim will be made against the Company or any of its subsidiaries under the above guarantee.

## 36. Material related party transactions

During the year, the Group had the following material related party transactions:

| HK$ million | Note | 2010 | 2009 |
|---|---|---|---|
| **(a) Recurring transactions** | | | |
| *Transactions with associates* | | | |
| Sales | (ii) | **–** | 9 |
| Purchases | (ii) | **–** | 9 |
| *Transactions with jointly controlled entities* | | | |
| Sales | (ii) | **91** | 43 |
| *Transactions with fellow subsidiaries* | | | |
| Rental expenses | (ii) | **90** | 91 |
| *Transactions with affiliates* | | | |
| Service income | (ii), (iii) | **2** | 42 |
| Sales | (ii), (iii) | **4** | 17 |

## 36. Material related party transactions (continued)

### (a) Recurring transactions (continued)

Notes:

(i) Remuneration for key management personnel are the amounts paid to the Company's directors as disclosed in note 9. Total remuneration is included in "staff costs" (see note 7(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) Affiliates represent associates and jointly controlled entities of the intermediate and ultimate holding companies.

**(b)** At 31 December 2010, the Group had bank balance and bills payable with a fellow subsidiary of HK$48 million (2009: HK$47 million) and HK$91 million (2009: HK$59 million) respectively. The terms and conditions of deposits and borrowings were set out in the respective agreements or as mutually agreed with the concerned financial institution at commercial terms similar to those with independent third parties.

### (c) Transactions with state-owned enterprises

Other than those transactions as disclosed above, the Group has certain transactions with other state-owned enterprises including but are not limited to sales and purchases of goods and services, use of utilities, depositing and borrowing money.

The sales and purchases transactions are conducted in the ordinary course of the Group's businesses on terms comparable to those with other entities that are not state-owned. The terms and conditions of deposits and loans were set out in the respective agreements or as mutually agreed with the concerned financial institution at commercial terms similar to those with independent third parties.

Having considered the potential transactions to be impacted by related party relationships, the entity's pricing strategy, purchasing and approval processes, and the relevant information that would be necessary for an understanding of the potential effect of the relationship on the financial statements, there are no transactions with other state-owned enterprises that require disclosure as related party transactions.

## 37. Ultimate holding company

At 31 December 2010, the directors consider the ultimate holding company of the Group to be CITIC Group, a state-owned enterprise incorporated in the People's Republic of China.

## 38. Post balance sheet event

In January 2010, the Group acquired 50% interest in Shenye at a consideration of RMB126.5 million (approximately HK$144 million) in which Shenye became a jointly controlled entity of the Group. Shenye and its subsidiaries ("Shenye Group") are engaged in sales of motor vehicles and spare parts, provision of after-sales services and conducting customer surveys for the manufacturers or suppliers.

On 1 January 2011, the Group gained control over Shenye through obtaining a casting vote in all shareholders' meeting as stated in the equity transfer agreement with no further transfer of consideration. As a result, Shenye became a subsidiary of the Group after the balance sheet date. The Group is now engaging an independent professional qualified valuer to identify and measure the assets acquired and the liabilities assumed and such exercise has not been completed. Accordingly, the fair value of interest in Shenye Group, the amount of goodwill, intangible assets and non-controlling interest arising from this business combination are not yet available. Based on the information obtained so far, the Group considered the book value of the following class of assets acquired and liabilities assumed at the acquisition date, including cash and bank deposits, trade and other receivables, borrowings, trade and other payables be approximately RMB93 million, RMB217 million, RMB210 million and RMB195 million respectively, will be close to the fair value. The other assets with book value of RMB235 million are subject to valuation by the independent professional qualified valuer.

## 39. Details of principal subsidiaries

The following are the principal subsidiaries of the Group which, in the opinion of the directors, principally affect the results or 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 subsidiaries | Note | Place of incorporation / establishment / operation | Authorised and issued share capital / registered and paid-in capital | Effective percentage of equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly % | Indirectly % | |
| Dah Chong Hong (Japan) Limited | | Japan | Authorised share capital of JPY1,280 million at JPY1,000 each and issued share capital of JPY480 million at JPY1,000 each | – | 100 | Import and export of foodstuffs, motor vehicles and garments, 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 spare parts trading |

## 39. Details of principal subsidiaries (continued)

| Name of subsidiaries | Note | Place of incorporation / establishment / operation | Authorised and issued share capital / registered and paid-in capital | Effective percentage of equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly % | Indirectly % | |
| Dah Chong Hong, Limited | | Hong Kong | Authorised and issued share capital of HK$50,000,000 at HK$1,000 each | 100 | – | Investment holding, import, retail and export of foodstuffs, electrical appliances and other products |
| 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 |
| 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 |
| Gouriki Property Development Co., Ltd. | | Japan | Authorised share capital of JPY100 million at JPY10,000 each and issued share capital of JPY10 million at JPY10,000 each | – | 100 | Property investment |
| 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 |

## 39. Details of principal subsidiaries (continued)

| Name of subsidiaries | Note | Place of incorporation / establishment / operation | Authorised and issued share capital / registered and paid-in capital | Effective percentage of equity interest held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|---|
| 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 |
| 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 |
| Sims Trading Company Limited | | Hong Kong | Authorised and issued share capital of HK$300,000 at HK$100 each | – | 100 | Wholesaling and distribution of fast moving consumer goods |
| 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 |
| 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 |
| 上海賓利汽車銷售有限公司 (Bentley Shanghai Motor Sales Ltd.) | (iii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB12,000,000 | – | 100 | Motor vehicle distributor |

## 39. Details of principal subsidiaries (continued)

| Name of subsidiaries | Note | Place of incorporation / establishment / operation | Authorised and issued share capital / registered and paid-in capital | Effective percentage of equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly % | Indirectly % | |
| 大昌行投資管理(上海)有限公司 (Dah Chong Hong Investment Management (Shanghai) Co., Ltd.) | (i), (viii) | The People's Republic of China | Registered and paid-in capital of US$9,500,000 | – | 100 | Property investment |
| 佛山駿安豐田汽車銷售服務有限公司 (Foshan Junan Toyota Motors Sale and Service Limited) | (ii), (vii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB10,000,000 | – | 49 | Motor vehicle 4S dealership |
| 廣東慎昌貿易有限公司 (Guang Dong Sims Trading Co., Ltd.) | (ii), (iv), (viii) | The People's Republic of China | Registered and paid-in capital of RMB4,000,000 | – | 100 | Wholesaling and distribution of fast moving consumer goods |
| 廣東偉德利電器製造有限公司 (Guangdong Victory Electrical Appliances Manufacturing Co., Ltd.) | (i), (viii) | The People's Republic of China | Registered and paid-in capital of US$32,000,000 | – | 100 | Production and sales of household electrical appliances |
| 廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited) | (i), (vii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB15,000,000 | – | 49 | Motor vehicle 4S dealership |
| 廣州駿佳凌志汽車銷售服務有限公司 (Guangzhou Junjia Lexus Motors Sale and Service Limited) | (ii), (v), (vii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB10,000,000 | – | 27.5 | Motor vehicle 4S dealership |

## 39. Details of principal subsidiaries (continued)

| Name of subsidiaries | Note | Place of incorporation / establishment / operation | Authorised and issued share capital / registered and paid-in capital | Effective percentage of equity interest held by the Company Directly % | Effective percentage of equity interest held by the Company Indirectly % | Principal activities |
|---|---|---|---|---|---|---|
| 廣州龍的豐田汽車銷售服務有限公司 (Guangzhou Longde Toyota Motors Sale and Service Limited) | (vii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB25,000,000 | – | 49 | Motor vehicle 4S dealership |
| 江門市寶昌汽車銷售服務有限公司 (Jiangmen Baochang Motors Sale and Service Limited) | (ii), (iv), (viii) | The People's Republic of China | Registered and paid-in capital of RMB12,000,000 | – | 100 | Motor vehicle 4S dealership |
| 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), (viii) | The People's Republic of China | Registered and paid-in capital of US$10,600,000 | – | 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$20,000,000 | – | 100 | Construction and development of industrial factories and warehouses |
| 江門市合禮汽車銷售服務有限公司 (Jiangmen Heli Motors Sale and Service Limited) | (iii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB20,000,000 | – | 90.01 | Motor vehicle 4S dealership |
| 嘉興合信汽車銷售服務有限公司 (Jiaxing Hexin Motors Sale and Service Limited) | (iii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB30,000,000 | – | 100 | Motor vehicle 4S dealership |
| 昆明大昌行管理咨詢有限公司 (Kunming Dah Chong Hong Management and Consulting Limited) | (i), (viii) | The People's Republic of China | Registered and paid-in capital of US$5,000,000 | – | 100 | Property investment and provision of management services |

## 39. Details of principal subsidiaries (continued)

| Name of subsidiaries | Note | Place of incorporation / establishment / operation | Authorised and issued share capital / registered and paid-in capital | Effective percentage of equity interest held by the Company: Directly % | Effective percentage of equity interest held by the Company: Indirectly % | Principal activities |
|---|---|---|---|---|---|---|
| 昆明合運汽車貿易有限公司 Kunming Heyun Motor Trading Co., Ltd. | (i) | The People's Republic of China | Registered and paid-in capital of RMB100,000,000 | – | 100 | Motor vehicle 4S dealership |
| 昆明聯亞豐田汽車銷售服務有限公司 Kunming Lianya Toyota Motor Sales And Services Co., Ltd | (i) | The People's Republic of China | Registered and paid-in capital of RMB86,000,000 | – | 100 | Motor vehicle 4S dealership |
| 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 |
| 上海大昌行賓利汽車銷售服務有限公司 (Shanghai Dah Chong Hong Bentley Motors Sale and Service Limited) | (viii) | The People's Republic of China | Registered and paid-in capital of RMB12,000,000 | – | 100 | Motor vehicle 4S dealership |
| 上海慎昌貿易有限公司 (Shanghai Sims Trading Company Limited) | (iii), (iv), (viii) | The People's Republic of China | Registered and paid-in capital of RMB500,000 | – | 100 | Wholesaling and distribution of fast moving consumer goods |
| 上海山隆實業有限公司 (Shanghai Sunny Life Enterprise) | (vi), (viii) | The People's Republic of China | Registered and paid-in capital of RMB24,000,000 | – | 71 | Food trading |
| 上海眾泰汽車銷售有限公司 (Shanghai Zhongtai Motor Sales Limited) | (iii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB12,000,000 | – | 100 | Motor vehicle 4S dealership |
| 深圳市增特汽車貿易有限公司 (Shenzhen City Zengte Car Trading Co., Ltd) | (iii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB15,000,000 | – | 100 | Motor vehicle 4S dealership |
| 江門慎昌貿易有限公司 (Sims Trading (Jiangmen) Company Limited) | (ii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB10,000,000 | – | 100 | Wholesale of food products |

## 39. Details of principal subsidiaries (continued)

| Name of subsidiaries | Note | Place of incorporation / establishment / operation | Authorised and issued share capital / registered and paid-in capital | Effective percentage of equity interest held by the Company Directly % | Indirectly % | Principal activities |
|---|---|---|---|---|---|---|
| 台北合迪汽車有限公司 Taipei Premium Motors Limited | | Taiwan | Registered and paid-in capital of NTD5,000,000 | – | 100 | Motor vehicle 4S dealership |
| 合眾汽車銷售服務(中國)有限公司 Triangle Motor Sales And Services (China) Co., Ltd. | (i) | The People's Republic of China | Registered and paid-in capital of RMB86,000,000 | – | 100 | Motor vehicle 4S dealership |
| 雲南寶泰隆汽車服務有限公司 (Yunnan Bao Tailong Motors Service Limited) | (viii) | The People's Republic of China | Registered and paid-in capital of RMB5,000,000 | – | 80 | Motor vehicle 4S dealership |
| 雲南聯迪汽車服務有限公司 (Yunnan Liandi Motors Service Limited) | (iii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB10,000,000 | – | 80 | Motor vehicle 4S dealership |
| 雲南中馳汽車銷售服務有限公司 Yunnan Zhongchi Motor Sales and Services Co., Ltd. | (i) | The People's Republic of China | Registered and paid-in capital of RMB50,000,000 | – | 100 | Motor vehicle 4S dealership |
| 湛江市駿凱汽車技術服務有限公司 (Zhanjiang Junkai Motors Technology and Service Limited) | (iii), (viii) | The People's Republic of China | Registered and paid-in capital of RMB6,000,000 | – | 100 | Motor vehicle 4S dealership |
| 浙江賓利汽車銷售服務有限公司 (Zhejiang Bentley Motors Sale and Service Limited) | (viii) | The People's Republic of China | Registered and paid-in capital of RMB5,000,000 | – | 100 | Motor vehicle 4S dealership |

## 39. Details of principal subsidiaries (continued)

Notes:

(i) The entity is a wholly foreign owned enterprise ("WOFE") established in the PRC.

(ii) The equity interests of this entity are held by persons which have the legal capacity under the regulations to be shareholders for the benefits of the Group.

Historically, the PRC 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 PRC (i.e. OPCOs) which are owned by the persons which have the legal capacity under the regulations to be shareholders for the benefits of the Group (i.e. Registered Owners).

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 be transferred to the Group at nil consideration within three working days after such distribution;

- The Group is granted an exclusive right to acquire, to the extent permissible under the laws of the PRC, equity interests in the OPCOs at nil consideration or at 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 entity is within the OPCO group.

(iv) The entity is in the process of conversion from OPCO to WOFE.

(v) The entity is in the process of conversion from OPCO to Sino-Foreign Equity Joint Venture.

(vi) The entity is a Sino-Foreign Equity Joint Venture.

(vii) The Group has an overriding casting vote at the board meeting of the intermediate holding company of this entity and the Group governs the financial and operating policies of this entity. Accordingly, it has been accounted for as a subsidiary.

(viii) The official name of the company is in Chinese and the English translation is for reference only.

# MAJOR PROPERTIES HELD BY THE GROUP

As at 31 December 2010

| Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / 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* | 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 | 83* | 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* 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 |

| | Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|---|
| 5. | Ground, 2nd, 3rd, 4th and 5th Floors,<br>Front Portion,<br>11 Mok Cheong Street,<br>Tokwawan,<br>Kowloon,<br>Hong Kong<br>Situated within KIL No 7630 | 2027 | 100 | 773* | Industrial |
| 6. | Shops Nos.1 and 2 on Ground Floor,<br>Siu Man Court,<br>7, 7A and 9 Fort Street,<br>North Point,<br>Hong Kong<br>51/543rd shares of and in the<br>Remaining Portions of Sections P and Q<br>of IL No 2366 and the Extension thereto | 2072 | 100 | 213* | Shop |
| 7. | Haiwang Hatchery Plant at<br>Haiwang Village,<br>Huinan Town,<br>Nanhui District,<br>Shanghai,<br>The People's Republic of China | 2048 | 76.77 | 2,053 | Industrial |
| 8. | Xing Guang Farm,<br>Xingguang Village,<br>Zhuqiao Town,<br>Nanhui District,<br>Shanghai,<br>The People's Republic of China | 2048 | 76.77 | 6,041 | Industrial |
| 9. | An Industrial Complex at<br>Jiyue Industrial Area,<br>Cangmen Village,<br>Junan Town,<br>Shunde District,<br>Foshan,<br>Guangdong Province,<br>The People's Republic of China | 2050 | 100 | 19,904 | Industrial |

| | Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|---|
| 10. | An Industrial Complex at No.1 Gongye Road, Taiping Village, Junan Town, Shunde District, Foshan, Guangdong Province, The People's Republic of China | 2048 | 100 | 4,947 | Vacant |
| 11. | Hiro-o Garden Hills, West Hill I-1204, Hiro-o 4-chome, Shibuya-ku, Tokyo, Japan | Freehold | 100 | 89 plus 13 area for parking | Residential |
| 12. | Hiro-o Garden Hills, Centre Hill H-1403, Hiro-o 4-chome, Shibuya-ku, Tokyo, Japan | Freehold | 100 | 193 plus 5 area for storage and 17 area for parking | Residential |
| 13. | Hiro-o Garden Hills, South Hill D-507 Hiro-o 4-chome, Shibuya-ku, Tokyo, Japan | Freehold | 100 | 218 plus 5 area for storage and 19 area for parking | Residential |
| 14. | Dah Chong No.1 Building, 12-6, Roppongi, 3-chome, Minato-ku, Tokyo, Japan | Freehold | 100 | 3,208 plus 36 area for parking | Commercial / office |

| Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|
| 15. Dah Chong No.2 Building, 18-2, Roppongi, 5-chome, Minato-ku, Tokyo, Japan | Freehold | 100 | 1,405 | Commercial / office |
| 16. Toriizaka House, 14-19, Roppongi, 5-chome, Minato-ku, Tokyo, Japan | Freehold | 100 | 683 | Residential / office |
| 17. Land No.346-22, Azateradani, Hino-Cho, Nishiwaki-shi, Hyogo Prefecture, Japan | Freehold | 100 | 6,300 | Vacant site |
| 18. Land No.8-162 and 8-179, Ogase-Cho, Kagamihara-shi, Gifu Prefecture, Japan | Freehold | 100 | 7,123 | Vacant site |
| 19. Land No.689, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan | Freehold | 100 | 509 | Vacant site |
| 20. Land No.692, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan | Freehold | 100 | 694 | Vacant site |

| Address / Lot no. | | Leasehold expiry | Group's interest % | Approximate gross floor area / 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 | 220* | Storage |
| 2. | Kiu Tau Wai, Ping Shan, Yuen Long, New Territories, Hong Kong Lot No.423 in DD127 | 2059 | 100 | 9,489 | Motor service centre (under construction) |
| 3. | 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 |
| 4. | 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* | Food store |

| Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|
| 5. 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* | Office |
| 6. 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 | 48,974 | Logistics and food processing complex |
| 7. Lot T7-3, No.19, Yinhai Avenue, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China | 2054 | 100 | 12,678 | Food processing and warehouse |
| 8. Lot T7-5, No.6, Jiangyu Road and No.28 Yinzhou Avenue, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China | 2054 | 100 | 17,171 | Food processing and warehouse |

| Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|
| 9. Lot T7-6, No.28, Yinzhou Avenue, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China | 2054 | 100 | 8,378 | Warehouse |
| 10. 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 | 8,973 | Cold storage, warehouse and food processing centre (under construction) |
| 11. Lot No. T-10 located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China | 2055 | 100 | 35,187 | Partially developed with logistics centre |
| 12. 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 | 10,179 | Industrial |
| 13. 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 | 4S shop |

| Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|
| 14. No.789 Anchi Road, Shanghai International Automobile City, Jiading District, Shanghai, The People's Republic of China | 2043 | 100 | 3,641 | Showroom and cars storage |
| 15. No.258 Nangang Gong Road, Huinan Town, Nanhui District, Shanghai, The People's Republic of China | 2048 | 76.77 | 9,696 | Office |
| 16. No.1 Yanda Road (San Zhou Section), Lunjiao Town, Shunde District, Foshan City, Guangdong Province, The People's Republic of China | 2054 | 100 | 116,154 | Industrial |
| 17. Lot No.2006-13, West of Wai Huan East Road, Yu Xing Town, Jia Xing City, Zhejiang Province, The People's Republic of China | 2046 | 100 | 5,500 | 4S shop |
| 18. Ling Gang Section, No.178 Zhongshan Six Road, Zhongshan Huo Ju Development Zone, Zhongshan City, Guangdong Province, The People's Republic of China | 2043 | 90.01 | 4,053 | 4S shop |
| 19. (7 Kilometers North of RT-Mart) No.998 Huchong Road, Kan Dun Jie Dao, Ci Xi City, Ningbo, Zhejiang Province, The People's Republic of China | 2049 | 50 | 9,595 | 4S shop |

| | Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|---|
| 20. | Land No.712-2 in Zi Wu Road,<br>Qu Jing City,<br>Yunnan Province,<br>The People's Republic of China | 2047 | 100 | 3,900 | 4S shop |
| 21. | No.508 Bai Long Road,<br>Liu Jia Ying Village,<br>Jinma Town,<br>Kunming City,<br>Yunnan Province,<br>The People's Republic of China | 2048 | 100 | 4,608 | 4S shop |
| 22. | Level 6,<br>No.1265 Chang De Road,<br>Putuo District,<br>Shanghai,<br>The People's Republic of China | 2046 | 71 | 832 | Office |
| 23. | Units 1901 to 1903 and<br>Units 1905 to 1909 on 19th Floor,<br>Units 2001 to 2003 and<br>Units 2005 to 2013 and<br>Units 2015 to 2020 on 20th Floor,<br>Enterprise Square,<br>No.228 Mei Yuen Road,<br>Shanghai,<br>The People's Republic of China | 2048 | 100 | 2,441 | Office |
| 24. | Units 1910 to 1913 and<br>Units 1915 to 1920 on 19th Floor,<br>Enterprise Square,<br>No.228 Mei Yuen Road,<br>Shanghai,<br>The People's Republic of China | 2048 | 100 | 870 | Office |
| 25. | Portion of Dah Chong No.2 Building,<br>18-2, Roppongi 5-chome,<br>Minato-ku,<br>Tokyo,<br>Japan | Freehold | 100 | 1,013 | Office |

| Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|
| 26. 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 | 2,013 plus 213 parking stalls | Showroom, service bays, storage and office |
| 27. 20 Tuas Avenue 2, Singapore 639451 Lot No 1349 Mukim 7 | 2011 | 100 | 4,841 plus parking area 132 | Car showroom, workshop, storage and office |
| 28. 259 Pandan Loop, Singapore 128435 Lot No 4009A (JTC Pte Lot A14379) Mukim 5 | 2012 | 100 | 1,138 | Cold store |

| Address / Lot no. | Leasehold expiry | Group's interest % | Approximate gross floor area / Approximate saleable area* (sq. m.) | Existing use |
|---|---|---|---|---|
| **Major Property Held For Sale** | | | | |
| 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 | 258* | Shop |

Note: The official address of the property in the People's Republic of China is in Chinese and the English translation is for reference only.

# DEFINITION OF TERMS

## Terms

| | |
|---|---|
| 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 |
| Capital employed | Shareholders' funds plus total debt |
| EBITDA | Profit before interest expense, taxation, depreciation and amortisation |
| Segment turnover | Segment turnover from external customers plus inter-segment turnover |
| Market capitalisation | Closing price of the share at the end of the year multiplied by number of shares in issue at the end of the year |

## Ratios

Basic earnings per share $= \dfrac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares (by days) in issue during the year}}$

Diluted earnings per share $= \dfrac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares (diluted)}}$

Net asset value per share $= \dfrac{\text{Net assets}}{\text{Number of shares in issue at the end of the year}}$

Gearing ratio $= \dfrac{\text{Net debt}}{\text{Total capital}}$

Interest cover $= \dfrac{\text{EBITDA}}{\text{Interest expense}}$

Return on equity $= \dfrac{\text{Profit attributable to shareholders}}{\text{Average shareholders' funds at the beginning and at the end of the year}}$

Segment margin $= \dfrac{\text{Segment result from operations}}{\text{Segment turnover}}$

## Headquarters and Registered Office


8th Floor, DCH Building
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Telephone: 2768 3388
Fax: 2796 8838


## Website

www.dch.com.hk contains a description of DCH Holdings' business, copies of interim and annual reports to shareholders, announcements, press releases and other information.

## Stock Codes

The Stock Exchange of Hong Kong Limited: 01828
Bloomberg: 1828:HK
Reuters: 1828.HK

## Share Registrar

Shareholders should contact our Share Registrar 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 3110
Fax: 2758 1117
Email: ir@ir.dch.com.hk

## Financial Calendar

| | |
|---|---|
| Closure of Register: | 4 May 2011 to<br>11 May 2011 |
| Annual General Meeting: | 11 May 2011, 10:30 a.m.<br>2/F., Grand Ballroom<br>Four Seasons Hotel<br>8 Finance Street, Central<br>Hong Kong |
| Final Dividend payable: | 19 May 2011 |

## Annual Report 2010

Our Annual Report is printed in English and Chinese language and is also available on our website under the "Investor Relations" section.

Shareholders may choose to rely on the Annual Report posted on the Group's website and may change their preference by writing to the Company's Share Registrar.

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 Registrar.

Non-shareholders who want to receive a printed copy of our Annual Report 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.

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