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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01828)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

- Group turnover increased by 3.7% to HK$46,462 million
- Profit attributable to shareholders decreased by 10.4% to HK$511 million
- Earnings per share were 27.89 HK cents
- Proposed final dividend of 3.69 HK cents per share
- Full year dividend decreased by 32.5% to 8.44 HK cents per share
- Net asset value per share of HK$5.05

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

Looking at 2016, the one word that sums up every aspect of our world and the environment we are operating in today is *change*. We have seen monumental shifts in the geopolitical landscape of our increasingly interconnected world, with new and often unexpected leaders emerging on the global stage, and convention undermined at every turn. The world is changing, but one constant holds true-to thrive, you must listen to all of your stakeholders and progress with them.

That theme is very relevant to Dah Chong Hong. A key element of our company's growth in the past was our ability to evolve in step with market dynamics. However, the pace of change around us has accelerated, and we need to match that pace to ensure we are aligned with the new normal of today's market.

In this letter, I would like to share with you our plans for how we intend to steer through increased competition and capture growth in Asia's vibrant markets. But first, let me review our results for the past year.

2016 Results

For 2016, our profit attributable to ordinary shareholders was HK$511 million, 10% less than 2015. Our board recommends a final dividend of 3.69 HK cents per share to shareholders, giving a total dividend of 8.44 HK cents per share for the year 2016.

Our results for the year were negatively impacted by a substantial write-down of aged inventory in our mainland China food division. Nevertheless, this was largely offset by after tax gains of HK$324 million from the sale of two assets in mainland China, as well as a HK$124 million revaluation gain from a commercial building in Japan.

The motor vehicle and related businesses were the major contributors to our bottom line. In mainland China, vehicle sales margins improved, and we also achieved better results in areas such as leasing, financing and after-sales service. Despite ending the year with significantly better performance than last year, our China motor business overall underperformed the market. Hong Kong and Macao, on the other hand, declined because of an overall reduction in demand as well as higher costs resulting from a strong Yen.

These results were far from satisfactory. In particular, the inventory write-down was a case of poor management. It brought into focus the changes our business needs: stronger internal controls and risk governance, streamlined processes, and a renewed focus on growth. To better understand how best to achieve these objectives, as a first step, we need to conduct detailed review of our business lines. To that end, we engaged a leading consultancy last year to evaluate our mainland China motor business, benchmarking against our peers. While we have distinct strengths, the study also highlighted key development priorities. Going forward, we will undertake similar assessment across the DCH platform.

As it has for the last 68 years, our deep understanding of consumers in each of the markets where we operate and our high quality of service continue to set us apart. We have some of the brightest minds in the industry. Our foundation is solid, and with the recent addition of LF Asia in July 2016, we now have an even bigger platform from which to seize opportunities ahead.

Roadmap to Change

We are in the business of helping companies navigate new markets, reach customers and establish brand loyalty. Whether it is a high-end car or a new skincare cream, we assist brands in making sense of the complex market landscape and ensuring their products are made available to the right consumers in the best possible way.

The reality is that consumers today are spoilt for choice. They will not simply gravitate towards a particular brand name or take what is stocked on shelves. Their expectations are higher and always evolving. This is especially the case in Asia, where the rising middle class represents a market potential greater than that of the US and Europe combined. Their increasing discretionary income is leading them to spend more on items previously viewed as luxuries.

Success in this context demands more than seamless operations. It requires creativity and agility. We need the people, processes and technology to stay ahead of the trends and cater to the ever-savvier consumers who are shaping the purchasing patterns of tomorrow. At the simplest level, this means upholding the most basic principle that has always guided our actions from the very first day: Know your customers and deliver the highest quality of service.

We have a clear strategy going forward, focusing on five areas:

Invest to grow: The organic growth of our core business hinges upon continual investment in our existing infrastructure. To that end, we are investing in our IT systems and logistics network to install the capacity and efficiency demanded by our enlarged business. At the end of the day, ours is a people business. So in parallel, we are exploring new dynamic ways to recruit, retain and motivate our employees.

We will continue to explore new growth drivers through acquisitions, but will only do so if the product mix and footprint are in line with our strategic objectives. Our acquisition of LF Asia last year is an example.

Partnerships will be another key growth pillar. While not limiting ourselves to this one area, we recognise that as a priority we will need the right partners to increase our online penetration. In the hyper-connected consumer environment we face today, enhancing our digital capabilities will be essential to our growth in all product categories.

Balance our portfolio: Historically, our motor vehicle business has been the key contributor to our earnings, and it will remain very important. However, in response to market changes we are taking steps to create a better balance between our motor and consumer businesses. By adding LF Asia, we now have more diversified product lines and an established portfolio in growing areas of consumer demand, such as healthcare. Looking forward, we will continue to deepen our exposure across these categories.

Optimise our geographic footprint: For many years, Hong Kong and mainland China have been instrumental to the success of DCH. They remain vital to our future. We already have an edge in China through the strength of our existing network, but as the China market evolves it will be imperative for us to re-evaluate our coverage. Having a presence in locations that have served us well in the past may no longer be optimal. Our team is analysing the dynamics of each city and adjusting our plans accordingly. This could mean departing certain locations and investing in others. We also see great potential in South East Asia. While the integration of LF Asia gave us an immediate foothold in this buoyant market, there are opportunities for further growth.

Manage our brands: We have had the great privilege of working with some of the most respected global and Asian brands. But all brands and products go through lifecycles, and different markets have specific needs. So we must always be vigilant in managing our brand pipeline and stay ahead of market trends to keep our product mix right for each of our individual markets. This also means identifying the brands that promise higher growth and replacing those now yielding low returns.

Our scale, experience and ability to provide a one-stop value-added service to our principals mean they prefer to stay with us. But that is no guarantee, so we listen to and work hand-in-hand with them, and regularly review how we can bring their brands to consumers in new and innovative ways.

Leverage the CITIC platform: Our parent company, CITIC Limited, being the largest conglomerate in China, spans all major segments of the Chinese economy. Its network, insights and resources are unparalleled. This is a singular source of competitive advantage. We must get better at tapping it in the future.

To make our strategy work, we as a business need to fundamentally change the way we think and behave. At its core, the change must be cultural, and it must be led from the top. I am making it my priority to ensure our leadership team sees this through.

Commitment to Shareholders

As I was writing this letter, I found myself coming back to the mission of our parent company — "To be the best in the field we operate". The same applies to Dah Chong Hong. But being the best does not simply mean growing in scale, it means generating real profit and long-term value for our shareholders.

Every decision we make will have this objective in mind — that is my commitment to you. I understand that investors have been disappointed with our performance. As we take the steps needed to shape our business, improve governance and ensure that we remain a leader in our industry, I thank you for your support and patience.

I would like to take this opportunity to thank Donald Yip for the leadership he has provided for so many years. On behalf of everyone at Dah Chong Hong, I wish Donald a happy retirement and the very best for the future.

I would also like to welcome our new CEO, Frank Lai. We are excited by the broad industry experience and fresh perspective he will bring to our business as we embark upon this period of change.

DCH has a great brand, and we are well positioned to capitalise on the growth opportunities that lie ahead. Supported by our 18,000 dedicated employees, our operational strength and our financial discipline, I am confident in our ability to change, to navigate this fast-paced environment, and to create value for our shareholders, principals and partners, and all of our customers.

Thank you for your ongoing support.

Zhang Jijing
Chairman
Hong Kong, 28 February 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

HK$ million	Note	**2016**	2015
Turnover	2(a)	**46,462**	44,803
Cost of sales		**(41,001)**	(39,565)
Gross profit		**5,461**	5,238
Other income	3	**787**	755
Net gain / (loss) on disposal of subsidiaries	4	**249**	(1)
Net gain on disposal of an associate	4	**89**	-
Selling and distribution expenses		**(3,416)**	(3,084)
Administrative expenses		**(2,105)**	(1,815)
Profit from operations		**1,065**	1,093
Net gain on remeasurement of an investment property reclassified as asset held for sale	5	**188**	-
Net gain on remeasurement of investment properties		**3**	18
Finance costs	6(a)	**(189)**	(212)
Share of profit after tax of associates		**11**	23
Share of profit after tax of joint ventures		**19**	12
Profit before taxation	6	**1,097**	934
Income tax	7	**(465)**	(286)
Profit for the year		**632**	648
Attributable to:			
Shareholders of the Company		**511**	570
Non-controlling interests		**121**	78
		632	648
Basic and diluted earnings per share (HK cents)	9	**27.89**	31.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

HK$ million	**2016**	2015
Profit for the year	**632**	648
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property, net of tax	**11**	-
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside Hong Kong:		
- subsidiaries	**(651)**	(622)
- associates and joint ventures	**(31)**	(33)
Reserves released upon disposal of subsidiaries	**11**	-
Reserve released upon disposal of an associate	**(6)**	-
Effect on cash flow hedge, net of tax	**(9)**	-
Other comprehensive loss for the year, net of tax	**(675)**	(655)
Total comprehensive loss for the year	**(43)**	(7)
Attributable to:		
Shareholders of the Company	**(121)**	(46)
Non-controlling interests	**78**	39
	(43)	(7)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

HK$ million	Note	**2016**	2015
Non-current assets			
Property, plant and equipment		**3,318**	3,485
Investment properties		**215**	384
Lease prepayments		**499**	568
Intangible assets		**1,154**	866
Goodwill		**2,403**	636
Interests in associates		**175**	350
Interests in joint ventures		**364**	411
Other non-current assets		**464**	86
Deferred tax assets		**102**	115
		8,694	6,901
Current assets			
Inventories	10	**7,161**	6,811
Asset held for sale		**366**	-
Trade debtors and other receivables	11	**8,013**	6,312
Current tax recoverable		**21**	24
Cash and bank deposits		**1,160**	1,110
		16,721	14,257
Current liabilities			
Borrowings		**2,357**	2,455
Trade creditors and other payables	12	**7,918**	4,533
Current tax payable		**156**	127
		10,431	7,115
Net current assets		**6,290**	7,142
Total assets less current liabilities		**14,984**	14,043
Non-current liabilities			
Borrowings		**5,067**	4,095
Other non-current liabilities		**75**	42
Put option written on non-controlling interest		**176**	158
Deferred tax liabilities		**422**	260
		5,740	4,555
Net assets		**9,244**	9,488
Capital and reserves			
Share capital	13	**1,477**	1,477
Other reserves		**7,255**	7,570
Total equity attributable to shareholders of the Company		**8,732**	9,047
Non-controlling interests		**512**	441
Total equity		**9,244**	9,488

NOTES

1. Basis of Preparation

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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Group has adopted all relevant revised HKFRSs which are effective for the current accounting period, and they are listed below:

- *Annual improvements to HKFRSs 2012-2014 cycle*
- *Amendments to HKAS 1, Disclosure initiative*
- *Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation*

The adoption of the above amendments does not have any significant impact on these financial statements.

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

The financial information relating to the year ended 31 December 2015 and 2016 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. The financial statements for the year ended 31 December 2016 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course. The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by the Hong Kong Companies Ordinance. The Company's auditor has reported on the financial statements of the Group for the year ended 31 December 2015. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Segment Reporting

The Group manages its businesses by business line and geographical location. In a manner consistent with the way the 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 related business, which includes operation of independent service outlets, original equipment parts trading, used car trading, motor leasing, sales of yachts, environmental and engineering businesses, as well as airport and aviation support businesses. The "Other Markets" geographical segment mainly covers business operations in Singapore and Taiwan.

(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, food processing and retail of food products under DCH Food Mart / DCH Food Mart Deluxe; (ii) distribution of electrical appliances products; (iii) trading and distribution of other consumer products; and (iv) provision of a wide range of integrated professional logistics and supply chain management solutions and cold chain management services. The "Other Markets" geographical segment mainly covers business operations in Japan and Singapore.

(iii) **LFA Business (as defined in Note 14)**
The LFA Business principally consists of the distribution of consumer and healthcare products across Asia (see Note 14).

(iv) **Other Business**
Other business includes four small operating segments namely property business, advertising business, insurance business and other investments. The revenue from these segments is below the quantitative threshold 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 are conducted on normal commercial terms and are priced with reference to prevailing market prices and in the ordinary course of business.

Performance is measured based on segment result from operations and segment profit after taxation which includes the Group's share of profits and losses after tax of associates and joint ventures. Items not allocated to the reportable segments comprise: (i) corporate expenses (mainly costs of supporting functions that are centrally provided by head office to all operating segments), (ii) amortisation of fair value adjustments arising from business combinations, (iii) fair value gain / loss and (iv) impairment loss on non-current assets other than amounts due from associates and joint ventures.

2. Segment Reporting (Continued)

(a) Segment results

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

HK$ million **Year ended 31 December 2016**	**Motor and Motor Related Business** **Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Food and Consumer Products Business** **Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**LFA Business***	**Other Business**	**Inter-segment elimination**	**Total**
Turnover from external customers	**5,661**	**24,554**	**2,379**	**32,594**	**5,397**	**3,999**	**555**	**9,951**	**3,879**	**38**	**-**	**46,462**
Inter-segment turnover	**3**	**1**	**-**	**4**	**-**	**1**	**-**	**1**	**2**	**100**	**(107)**	**-**
Segment Turnover	**5,664**	**24,555**	**2,379**	**32,598**	**5,397**	**4,000**	**555**	**9,952**	**3,881**	**138**	**(107)**	**46,462**
Segment result from operations	**513**	**350**	**151**	**1,014**	**255**	**(104)**	**(7)**	**144**	**106**	**68**	**-**	**1,332**
Share of profit after tax of associates	**-**	**3**	**-**	**3**	**-**	**8**	**-**	**8**	**-**	**-**	**-**	**11**
Share of profit after tax of joint ventures	**-**	**13**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**19**
Segment profit / (loss) before taxation	**513**	**366**	**151**	**1,030**	**255**	**(96)**	**(7)**	**152**	**106**	**74**	**-**	**1,362**
Segment income tax	**(86)**	**(146)**	**(39)**	**(271)**	**(41)**	**(21)**	**(3)**	**(65)**	**(21)**	**(8)**	**-**	**(365)**
Segment profit / (loss) after taxation	**427**	**220**	**112**	**759**	**214**	**(117)**	**(10)**	**87**	**85**	**66**	**-**	**997**

HK$ million Year ended 31 December 2015	Motor and Motor Related Business Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Food and Consumer Products Business Hong Kong & Macao	Mainland China	Other Markets	Sub-total	LFA Business*	Other Business	Inter-segment elimination	Total
Turnover from external customers	6,837	24,996	2,231	34,064	5,606	4,587	516	10,709	-	30	-	44,803
Inter-segment turnover	32	1	-	33	1	-	-	1	-	106	(140)	-
Segment Turnover	6,869	24,997	2,231	34,097	5,607	4,587	516	10,710	-	136	(140)	44,803
Segment result from operations	812	78	205	1,095	259	(69)	(11)	179	-	76	-	1,350
Share of profit after tax of associates	-	-	-	-	-	23	-	23	-	-	-	23
Share of profit after tax of joint ventures	-	6	-	6	-	-	-	-	-	6	-	12
Segment profit / (loss) before taxation	812	84	205	1,101	259	(46)	(11)	202	-	82	-	1,385
Segment income tax	(129)	(61)	(44)	(234)	(43)	(7)	(2)	(52)	-	(9)	-	(295)
Segment profit / (loss) after taxation	683	23	161	867	216	(53)	(13)	150	-	73	-	1,090

* The distribution of consumer and healthcare products business conducted by LF Distribution Group (as defined in Note 14) is separately presented under "LFA Business".

2. Segment Reporting (Continued)

(b) Reconciliation between segment profit after taxation and profit for the year

HK$ million	**2016**	2015
Segment profit after taxation	**997**	1,090
Net gain on		
- remeasurement of investment properties	**3**	18
- remeasurement of an investment property reclassified as asset held for sale	**188**	-
Amortisation of fair value adjustments on property, plant and equipment and intangible assets arising from business combinations	**(82)**	(66)
Net provision of impairment losses on		
- property, plant and equipment	**(6)**	(3)
- intangible assets	**(6)**	-
- goodwill	**(5)**	-
Net fair value loss on foreign currency forward contracts	**(2)**	(1)
Net fair value gain / (loss) on interest rate swaps and cross currency swap	**16**	(3)
Share-based payments	**(6)**	(16)
Transaction costs incurred for business combination	**(39)**	-
Reversal of over-accrued supplier rebates	**-**	(41)
Unallocated corporate expenses	**(326)**	(339)
Reconciliation items before taxation	**(265)**	(451)
Tax impact:		
Additional assessments on certain commission income for prior years	**(38)**	-
Net tax effect on the above reconciliation items	**(62)**	9
Reconciliation items net of taxation	**(365)**	(442)
Profit for the year	**632**	648

2. Segment Reporting (Continued)

(c) Other segment information

The following table sets out other information by reportable segment:

HK$ million **Year ended 31 December 2016**	**Motor and Motor Related Business** **Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Food and Consumer Products Business** **Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**LFA Business***	**Other Business**	**Total**
Segmental depreciation and amortisation	**71**	**255**	**30**	**356**	**36**	**56**	**2**	**94**	**22**	**13**	**485**
Segmental interest income	**1**	**56**	**-**	**57**	**1**	**2**	**-**	**3**	**2**	**-**	**62**
Segmental interest expense	**3**	**10**	**4**	**17**	**2**	**52**	**1**	**55**	**18**	**8**	**98**
Segmental write-down of inventories	**18**	**27**	**6**	**51**	**16**	**74**	**7**	**97**	**11**	**-**	**159**
Segmental reversal of write-down of inventories	**9**	**3**	**2**	**14**	**1**	**-**	**2**	**3**	**20**	**-**	**37**
Segmental net provision of impairment losses on trade debtors and other receivables	**4**	**38**	**-**	**42**	**-**	**163**	**-**	**163**	**5**	**-**	**210**
Segmental net gain on disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**244**	**-**	**244**	**-**	**5**	**249**
Segmental net gain on disposal of an associate	**-**	**-**	**-**	**-**	**-**	**89**	**-**	**89**	**-**	**-**	**89**

HK$ million Year ended 31 December 2015	Motor and Motor Related Business Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Food and Consumer Products Business Hong Kong & Macao	Mainland China	Other Markets	Sub-total	LFA Business*	Other Business	Total
Segmental depreciation and amortisation	78	301	23	402	36	65	1	102	-	13	517
Segmental interest income	1	44	-	45	-	2	-	2	-	1	48
Segmental interest expense	3	38	4	45	2	58	1	61	-	7	113
Segmental write-down of inventories	30	29	8	67	4	11	1	16	-	-	83
Segmental reversal of write-down of inventories	6	4	3	13	1	-	2	3	-	-	16
Segmental net provision of impairment losses on trade debtors and other receivables	-	6	-	6	1	7	-	8	-	-	14
Segmental net loss on disposal of a subsidiary	-	1	-	1	-	-	-	-	-	-	1

* The distribution of consumer and healthcare products business conducted by LF Distribution Group (as defined in Note 14) is separately presented under "LFA Business".

2. Segment Reporting (Continued)

(d) 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, Thailand, Malaysia and Taiwan. 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 deferred tax assets) by geographical segment is as follows:

	Turnover from external customers		Non-current assets	
HK$ million	**2016**	2015	**2016**	2015
Hong Kong & Macao	**12,909**	12,452	**2,885**	1,464
Mainland China	**29,347**	29,583	**4,640**	4,889
Other Markets	**4,206**	2,768	**1,067**	433
Total	**46,462**	44,803	**8,592**	6,786

3. Other Income

HK$ million	**2016**	2015
Commission income	**407**	369
Handling and service charge income	**179**	167
Advertising and other subsidies from suppliers	**112**	128
Government subsidies	**17**	18
Interest income from bank deposits	**10**	10
Forfeited deposit from customers	**6**	24
Other interest income	**1**	1
Net exchange gain / (loss)	**1**	(12)
Net gain on disposal of available-for-sale investments	**-**	1
Net loss on disposal of property, plant and equipment (Note)	**(15)**	(1)
Net fair value loss on foreign currency forward contracts	**(2)**	(1)
Others	**71**	51
Total	**787**	755

Note:

In 2016, an ammonia emission incident occurred in a logistics centre of the Group located in Shanghai. The Group has engaged independent third parties to assess the damages and claims arising from the incident. Based on the assessment, the Group has written-off certain plant and equipment amounted to HK$30 million which was included in "Net loss on disposal of property, plant and equipment". The Group has also incurred incremental storage costs and losses for claims totalling HK$33 million which were included in "Cost of sales" and "Administrative expenses" respectively.

4. Net Gain / (Loss) on Disposal of Subsidiaries and an Associate

Included in the net gain on disposal of subsidiaries in 2016 is an amount of HK$244 million which represents the gain on disposal of Guangdong Victory Electrical Appliances Manufacturing Co., Ltd ("GDVTR"), details of which has been disclosed in "Disposal of a Subsidiary" (Note 15).

The net gain on disposal of an associate of HK$89 million in 2016 represents the disposal of the entire 26.04% interest in Shanghai Shineway DCH Co., Ltd. at a consideration of RMB208 million (equivalent to approximately HK$241 million).

5. Net Gain on Remeasurement of an Investment Property Reclassified as Asset Held for Sale

An investment property situated in Japan with a carrying amount of HK$178 million was reclassified as asset held for sale with a fair value of HK$366 million following the Group's plan to dispose of the property in October 2016. The property was revalued at 31 December 2016. A remeasurement gain of HK$188 million was recognised in the consolidated statement of profit or loss for the year ended 31 December 2016 in this respect.

6. Profit Before Taxation

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

HK$ million	**2016**	2015
(a) Finance costs		
Interest on bank advances and other borrowings	**189**	212
(b) Other items		
Amortisation		
- lease prepayments	**16**	15
- intangible assets	**69**	54
Depreciation	**496**	529
Share-based payments	**6**	16
Write-down of inventories	**159**	83
Reversal of write-down of inventories	**(37)**	(16)
Reversal of over-accrued supplier rebates	**-**	41
Net provision of impairment losses on		
- property, plant and equipment	**6**	3
- intangible assets	**6**	-
- goodwill	**5**	-
- amounts due from joint ventures	**11**	-
- trade debtors and other receivables	**210**	14
Direct write off of trade debtors and other receivables	**25**	3

7. Income Tax

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) based on the estimated assessable profits for the year. Taxation outside Hong Kong is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Income tax in the consolidated statement of profit or loss represents:

HK$ million	**2016**	2015
Current tax - Hong Kong Profits Tax		
- Provision for the year	**136**	176
- Under-provision in previous years (Note)	**38**	1
	174	177
Current tax - Outside Hong Kong		
- Provision for the year	**168**	156
- Under-provision in previous years	**6**	3
	174	159
Deferred tax		
- Origination and reversal of temporary differences	**12**	23
- Utilisation / (recognition) of deferred tax assets on tax losses	**71**	(80)
	83	(57)
Withholding tax	**34**	7
Total	**465**	286

Note:

The Hong Kong Inland Revenue Department has raised additional assessments on certain commission income for prior years. This tax case has been settled during the year with additional tax charge of HK$38 million. In accordance with a Deed of Indemnity dated 28 September 2007, CITIC Limited agreed to indemnify the Group in respect of taxation claims if such claims subsisted prior to the listing of the Company on 17 October 2007. In this respect, HK$22 million has been recovered from CITIC Limited and such amount was credited to general reserve.

8. Dividends

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

HK$ million	**2016**	2015
Interim dividend declared and paid of 4.75 HK cents (2015: 6.10 HK cents) per share	**87**	112
Final dividend proposed after the end of the reporting period of 3.69 HK cents (2015: 6.40 HK cents) per share	**68**	117
Total	**155**	229

The final dividend proposed after the end of the reporting period has not been recognised as a liability at 31 December 2015 and 2016.

(b) Dividend attributable to the previous year, approved and paid during the year is as follows:

HK$ million	**2016**	2015
Final dividend approved and paid of 6.40 HK cents (2015: 6.60 HK cents) per share	**117**	121

9. 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$511 million (2015: HK$570 million) and the weighted average number of ordinary shares in issue during the year which is calculated as follows:

	Number of ordinary shares	
	2016	2015
Issued ordinary shares at 1 January	**1,832,133,000**	1,831,993,000
Effect of share options exercised	**-**	88,767
Weighted average number of ordinary shares	**1,832,133,000**	1,832,081,767

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2015 and 2016 are the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

10. Inventories

HK$ million	**2016**	2015
Finished goods	**7,079**	6,763
Raw materials	**72**	47
Work-in-progress	**10**	1
At 31 December	**7,161**	6,811

HK$ million	**2016**	2015
Motor and Motor Related Business	**3,931**	5,087
Food and Consumer Products Business	**1,578**	1,724
LFA Business	**1,652**	-
At 31 December	**7,161**	6,811

11. Trade Debtors and Other Receivables

HK$ million	**2016**	2015
Trade debtors and bills receivable		
Within 3 months	**4,121**	2,785
More than 3 months but within 1 year	**423**	141
Over 1 year	**81**	47
	4,625	2,973
Other receivables, deposits and prepayments	**3,129**	3,273
Finance lease receivables	**567**	75
Gross amount due from customers for contract work	**7**	2
Amounts due from fellow subsidiaries	**1**	1
Amounts due from associates	**5**	6
Amounts due from holders of non-controlling interests	**55**	28
Derivative financial instruments	**15**	2
	8,404	6,360
Less: Non-current finance lease receivables	**(352)**	(48)
Non-current trade debtors	**(39)**	-
At 31 December	**8,013**	6,312

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	Cash on delivery to 105 days
LFA Business	Cash on delivery to 90 days

12. Trade Creditors and Other Payables

HK$ million	**2016**	2015
Trade creditors and bills payable		
Current or within 1 month	**3,552**	1,343
More than 1 month but within 3 months	**266**	23
More than 3 months but within 6 months	**51**	5
Over 6 months	**20**	18
	3,889	1,389
Other payables and accrued charges	**3,663**	2,764
Gross amount due to customers for contract work	**9**	9
Amount due to a fellow subsidiary	**-**	1
Amounts due to associates	**17**	42
Amounts due to joint ventures	**10**	10
Amounts due to holders of non-controlling interests	**242**	248
Provision for product rectification	**71**	61
Derivative financial instruments	**17**	9
At 31 December	**7,918**	4,533

13. Share Capital

	2016		2015	
	Number of shares (in million)	**HK$ million**	Number of shares (in million)	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**1,832**	**1,477**	1,832	1,477

In accordance with Section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

14. Business Combination

On 3 May 2016, the Group entered into a sale and purchase agreement to acquire 100% equity interest in LF Distribution Holdings Limited and its subsidiaries (collectively known as "LF Distribution Group") at a total cash consideration of US$333 million which is subject to customary closing adjustments to net working capital, cash and indebtedness. LF Distribution Group is principally engaged in distribution of consumer and healthcare products across Asia (the "LFA Business"). LF Distribution Group has been operating in geographical areas including mainland China, Hong Kong, Macao, Taiwan, Thailand, Malaysia, Singapore, the Philippines, Indonesia and Brunei. The acquisition was completed on 30 June 2016.

If the acquisition of LF Distribution Group had occurred on 1 January 2016, the Group's turnover and profit after tax for the year would have been approximately HK$50,679 million and HK$588 million respectively. These amounts have been calculated by adopting the Group's accounting policies and adjusting the results of the relevant subsidiaries to reflect the additional amortisation and depreciation that would have been charged assuming the fair value adjustments to intangible assets, property, plant and equipment and lease prepayments had been applied from 1 January 2016, together with the consequential tax effects.

The goodwill is attributable mainly to the benefit of skills and technical talents of the acquired businesses' work force and the synergies expected to be achieved from integrating the entities into the Group's existing businesses. None of the goodwill recognised is expected to be deductible for income tax purpose.

14. Business Combination (Continued)

The provisional fair values of the assets and liabilities of LF Distribution Group recognised at the acquisition date are as follows:

HK$ million	LFA Business
Property, plant and equipment	**243**
Lease prepayments	**69**
Intangible assets	**401**
Inventories	**1,646**
Trade debtors and other receivables (Note *(ii)*)	**2,164**
Cash and bank deposits	**712**
Borrowings	**(331)**
Trade creditors and other payables	**(3,925)**
Current tax payable	**(16)**
Deferred tax liabilities	**(113)**
Fair value of net assets acquired	**850**
Goodwill	**1,775**
Non-controlling interests arising from acquisition of subsidiaries	**(33)**
Total consideration	**2,592**
Less: consideration payable	**(79)**
Less: cash and cash equivalents acquired	**(417)**
Net cash outflow	**2,096**

Notes:

(i) The fair value of the identifiable assets and liabilities arising from the acquisition of LF Distribution Group as at 30 June 2016 and the related consideration are currently determined provisionally as at 31 December 2016. At the date of these annual financial statements, the necessary valuations and other calculations for the net assets acquired and liabilities assumed have not been finalised and therefore have been provisionally determined based on the latest information available to the management. Any adjustments to these provisional values upon finalisation will be recognised within 12 months of the acquisition date. The adjustments will be calculated as if the fair values had been recognised on the acquisition date. Goodwill will also be adjusted to the amount that would have been recognised if the fair value had been used at the acquisition date.

(ii) The fair value of trade debtors and other receivables is HK$2,164 million which includes trade debtors with a fair value of HK$1,535 million. The gross contractual amount for trade debtors and other receivables is HK$2,205 million, and provision for impairment loss is HK$41 million.

15. Disposal of a Subsidiary

On 27 October 2016, the Group entered into an equity transfer agreement to transfer the entire equity interest in GDVTR, a wholly-owned subsidiary of the Group to an independent third party at a cash consideration of RMB418 million (equivalent to approximately HK$467 million).

HK$ million	
Property, plant and equipment	**114**
Investment properties	**34**
Lease prepayments	**75**
Trade debtors and other receivables	**1**
Cash and bank deposits	**6**
Trade creditors and other payables	**(5)**
Deferred tax liabilities	**(23)**
Net assets disposed of	**202**
Release of reserve	**15**
Expenses incurred for disposal	**6**
Gain on disposal (Note 4)	**244**
Consideration	**467**
Satisfied by:	
Cash	**223**
Consideration receivable	**244**
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of GDVTR	
Cash consideration	**467**
Cash and bank deposits disposed of	**(6)**
	461

16. Non-Adjusting Events After the Reporting Period

Subsequent to the end of the reporting period, the Group completed the disposal of an investment property reclassified as asset held for sale in Japan at a total consideration of JPY5,500.0 million (equivalent to approximately HK$366 million). The disposal was completed on 27 January 2017.

17. Comparative Figures

Certain comparative figures, including current assets of HK$38 million and current liabilities of HK$42 million have been reclassified to non-current assets and non-current liabilities respectively in order to conform to the current year's presentation.

BUSINESS REVIEW

MOTOR AND MOTOR RELATED BUSINESS

Mainland China

The overall China motor market grew 13.7% in 2016 as car manufacturers took positive steps to rectify the imbalance between supply and demand. The operating environment of the car dealership industry also improved, while the new car sales gross margin gradually picked up. As a result, the overall motor industry in mainland China saw resurgence in profitability.

✧ Mainland China Market

	Units sold	% change
Overall motor market	Approximately 28.0 million	↑ 13.7%
Passenger cars	Approximately 24.3 million	↑ 14.9%
Commercial vehicles	Approximately 3.7 million	↑ 5.8%

**Source: China Association of Automobile Manufacturers*

For DCH, its mainland China motor business also improved significantly, reporting a 349% growth in segment result from operations, as a result of better sale gross margin and measures taken internally to enhance profitability. It is believed that this business segment should have walked out from the bottom of its first business cycle.

✧ DCH in mainland China

	Units sold	% change
Overall DCH	Approximately 100,300	↑ 4.9%
Passenger cars	Approximately 95,900	↑ 5.7%
Commercial vehicles	Approximately 4,400	↓ 9.6%

For DCH, total units sold increased by 4.9%. But because of the RMB depreciation, the turnover dropped by 1.8% in HK Dollar term. Segment result from operations however recorded a threefold improvement. Segment margin also increased by 1.1- percentage-points. In terms of dealership business, DCH recorded 5.2% growth in unit sales and 0.3% growth in service units.

The Motor Business improved its profitability through various proactive profitability enhancement measures that have been taken since 2015. These include:

- Better control of gross profit margin;
- Providing more value-added services to new car customers;
- Reducing operating cost by optimising inventory levels;
- Enhancing operating efficiency via tighter overhead costs; and
- Optimising our 4S shop portfolio.

As at the end of 2016, the business' total number of 4S shops was 80 while the number of showrooms had decreased to 14. Same-store new car unit sales and revenue both increased by 6.9%, whereas same-store service volume increased by 1.4% and service revenue increased by 5.8%. We are looking for opportunities to expand our network through greenfield development and active M&A activities.

In addition to new car sales, we also received a good contribution from our Motor Related Business during the year under review:

- For the **finance lease** business, the value of the total loan portfolio increased by 740%. We will continue to improve our penetration rate in our 4S shop network and expand our services to other car dealers and partners.
- For **auto finance and insurance commission**, income rose by 51.4% and 10.5% respectively.
- For the **car rental business**, we have expanded our network to Nanjing (南京), Shijiazhuang (石家莊), Tongling (銅陵) and Zhengzhou (鄭州) and now cover a total of 22 cities.

Our achievements in sales and after sales service brought us a number of recognitions from manufacturers in 2016:

4S shop	Award
DF Honda 4S shop Zhanjiang Herong (東風本田湛江合榮)	Golden Key Award (全國黃金鑰匙獎) Five-star 4S Shop (五星級4S店)
FAW Audi 4S shop Yunnan Liandi (一汽奧迪雲南聯迪)	Best Sales Performance Award (最佳銷售業績獎)
FAW Toyota 4S shop Guangzhou Guangbao (一汽豐田廣州廣保)	Best Performance Award (全國金牌優秀經銷店)
FAW Toyota 4S shop Zhanjiang Junhua (一汽豐田湛江駿華)	Best Performance Award (全國十佳銀牌店)
Ferrari 4S shop Guangdong Junjia (法拉利廣東駿佳)	Best Service Performance Award (最佳售後服務經銷商)
GAC Honda 4S shop Shenye GAC Honda (廣汽本田深業廣本)	Excellent Dealer Award (優秀經營獎)
GAC Toyota 4S shop Guangzhou Junlong (廣汽豐田廣州駿龍)	Top Ten Dealer Award (十佳經銷商)
Haima 4S shop Kunming Heda (海馬昆明合達)	Excellent Dealer Award (優秀經銷商)
Qingling 4S shop Kunming Heyun (慶鈴昆明合運)	Excellent Dealer Award (優秀經銷商)
Qingling 4S shop Shanghai Qingling (慶鈴上海慶鈴)	Best Service Performance Award (售後優秀服務經銷商)

Hong Kong and Macao

The overall Hong Kong motor market declined 19.0% in 2016 due to weak consumer sentiment and the narrow down of tax incentive schemes for environment-friendly vehicles. Delays in infrastructure projects and sharp drop in the number of inbound mainland tour groups affected demand for commercial vehicles. As for passenger car, competition was particularly fierce as each brand was fighting for its market share.

✧ Hong Kong Market

	Units sold	% change
Overall motor market	Approximately 50,000	↓ 19.0%
Passenger car market	Approximately 34,500	↓ 17.7%
Commercial vehicle market	Approximately 15,500	↓ 21.7%

**Source: Transport Department, HKSAR*

✧ DCH in Hong Kong and Macao

	Units sold	% change
Overall DCH	Approximately 11,300	↓ 22.8%
Passenger cars	Approximately 6,700	↓ 23.6%
Commercial vehicles	Approximately 4,600	↓ 21.8%

Following the market trend, DCH's total units sold dropped by 22.8% and turnover decreased by 17.5%. Segment result from operations declined 36.8% as strong Japanese yen affected the new car sale gross profit. Also, segment margin was negatively impacted due to keen competition. In Hong Kong, the Group recorded a unit sales drop of 18.6%, which was lower than the drop in the overall Hong Kong market. Thus, the Group was able to maintain its market share in Hong Kong at 20.9%.

Despite the decrease in new car sales, our after-sales business continued to make a stable contribution and sustain profitability with enhanced efficiency. We also made progress in other Motor Related Businesses to diversify our income streams. These included equipment supply contract and asset management services in the airports, environment-friendly equipment installation, like SCR (Selective Catalytic Reduction) devices to the franchise buses.

DCH has always been committed to nurturing talent to support the expansion of the group's after-sales services. Our apprentice training programme has more than 40 years of history. We have won the champion in the "Best Apprentice Award" organised by the Vocational Training Council for six consecutive years. Our service team also won second runner-up in the Isuzu World Technical Competition (I-1 Grand Prix) in 2016.

Other Markets

In other markets, DCH's turnover grew by 6.6%. This was mainly due to a strong contribution from the Singapore market. Segment result from operations and segment margin both decreased because of strong Japanese Yen and extremely tough situation of *Audi* business in Taiwan in the year.

In Singapore, DCH's commercial vehicle unit sales increased by 20.5% by capturing the market opportunity due to the local government's environmental policy to replace aged diesel vehicles. The parts trading business also recorded satisfactory growth.

The Taiwan market had a rough 2016, which was impacted mainly by the economic slowdown and reduced number of mainland Chinese tourists. For commercial vehicles, DCH strategically captured several corporate key accounts and maintained 13.1% growth in unit sales, successfully mitigating the adverse market environment. For the *Audi* dealership business, it is decided to dispose of it in 2017 due to its low return in the past years.

Pleasure Boat Business

Our pleasure boat business continued to make encouraging progress as DCH strengthened its sales organisation. In late 2016, the Chinese government introduced a new policy concerning a free yacht travel scheme to Macao which will benefit our pleasure boat business in mainland China.

FOOD AND CONSUMER PRODUCTS BUSINESS

This segment contains several business lines, including Food (comprising upstream food manufacturing, midstream distribution and downstream retail), Electrical Appliances and Logistics.

For the Food Business in mainland China, business environment has been affected by a slow economic growth, the anti-craft measures and the impact of new e-channel to the retails in the last few years. The high inventory accumulated as a result of the slowdown of sales in the previous years has caused serious industry-wide problems. In view of this potential risk, the Group decided to make sufficient provisions in the year to cover the possible disposal losses in the aged stocks and the bad debts risk. As a result, DCH's Food and Consumer Products Business in mainland China recorded a decrease in turnover of 12.8% and segment result from operations was at a loss of HK$104 million, including disposal gains of subsidiaries and write-offs (see p.32 of Financial Review). Segment margin dropped by 1.1-percentage-points to -2.6%.

To put itself in the strongest trading position for growth and long-term success in mainland China, the Group has taken positive steps to address its inventory levels, review its distribution arrangements and agreements, and rationalise its operations.

The overall Hong Kong and Macao market was stagnant due to the on-going economic downturn, weak local consumer sentiment and a further slowdown in inbound tourism. Consequently, DCH's turnover and segment result from operations dropped by 3.7% and 1.5% respectively. Segment margin increased slightly by 0.1- percentage-point to 4.7%.

Food Business

Mainland China

For the Food Business in mainland China, high inventory accumulated as a result of the slowdown of sales in the past few years. We seriously scrutinised our inventory and all other balance sheet items including receivables and decided to make sufficient provisions in the year to cover the risk. As such, the segment recorded losses in the year.

Our fast-moving consumer goods (**FMCG**) business recorded a shortfall compared to last year.

- Turnover for confectionery decreased by 25.4% due to lower sales of chocolate items for daily consumption.
- Turnover for snacks was down 26.0% because of discontinued transactions with a major principal.
- Turnover for dairy dropped 22.9%. This was mainly caused by the steep decline of the price of milk as well as fierce competition among brand owners of liquid milk and milk powder, which was triggered by excess supplies of milk products in the global market.

- Turnover for beverages decreased by 11.4%, which was mainly attributable to keen competition in the functional beverage segment.

DCH achieved steady sales growth in its **Food Commodity** business, which was mainly driven by growth in frozen meat, poultry and seafood. Customers now tend to purchase products from proper sources with better quality; in addition, stricter import regulations have been implemented in the PRC. As a result, reliable, quality distributors like DCH have benefitted. We also continued to expand our distribution and leverage our house brand, "*DCH Food*", to capture rising demand for quality products from the food service sector.

Hong Kong and Macao

Turnover for the **FMCG** business decreased by 1.4%.

- Turnover for confectionery was on par with last year.
- Turnover for dairy increased by 7.3%, which is attributed to an improvement in drugstore sales.
- Turnover for healthcare products dropped by 7.9%, mainly due to reduced demand from less tourist sales and more product alternatives.
- Turnover for wines and beverages decreased by 5.8% because of keen competition.

During the year, DCH started expanding into non-food FMCG, including baby and elderly care products. These were distributed through local retail channels such as supermarkets and drugstores that offer synergy with our current distribution coverage. DCH's house brand "*Cheer*" is well accepted in the market, and *Cheer* milk has been one of the top five brands in the pasteurised milk category since 2015. *Cheer* will further expand its distribution coverage in Southern China and beyond, and extend its product offerings in dairy and other categories.

Our **Food Commodity** business slightly dropped in turnover but recorded a significant increase in profit with improved margin. This was achieved by taking a right position in response to commodity price trend and expanding our customer network especially in the food service sector with high quality frozen and ambient food products. A range of sustainable seafood, meat and poultry products were introduced to enrich our portfolio to fulfill the growing demand for healthy food and eating enjoyment.

For the **Food Manufacturing** business, turnover fell short of last year's level due to the sluggish food service market and keen competition from new players. After the streamline of production facilities in Yuen Long in 2016, it is expected that newly upgraded facilities will help to improve operational efficiency. The coffee and tea manufacturing business recorded modest growth during the year.

In the **Food Retail** business, total sales dropped due to sluggish local and tourist spending as well as the closure of some non-performing stores. Profit was also affected by high rentals and labour cost. During the year we strategically revamped more than 10 stores by employing a new retail concept and widening our product offering to enhance the shopping experience. As a result, both turnover and scan gross margin at these refurbished stores have shown encouraging results. The revamp programme has also led to positive growth in same-store sales and customer count since mid-year. We will also develop DCH's e-commerce platform as an additional channel to broaden the penetration of our products.

Electrical Appliances Business

In mainland China, turnover saw encouraging growth of 29.6%, driven by the popularity of trendy earphones and audio products. Apart from expanding our existing distribution networks, we will continue to explore additional strategic online distribution channels in order to broaden our coverage.

In Hong Kong, turnover grew by 12.2% as the acquisition of *Gilman Group* in January 2015 enabled us to enjoy economies of scale, a wider brand and product portfolio offering, and deeper market penetration. Cost-saving initiatives and favourable foreign currency exchange contributed positively to an improvement in profitability.

Logistics Business

In mainland China, turnover decreased owing to a decline in the fruit importation business in Xinhui and the accident of ammonia leakage in June at our Shanghai logistics centre, which also caused high rectification costs and in turn affected the segment results of the business.

In light of rising consumer awareness of health and food safety, the demand for cold chain logistics services in mainland China is growing. We will continue to expand our foothold in cold chain logistics and build closer collaborations with anchor customers and business partners. In addition, we will strategically expand our logistics business in Shanghai and Guangdong to serve internal companies and large corporate customers in order to maximise the utilisation rate of our logistics infrastructure.

In Hong Kong and Macao, turnover was similar to last year as the improvement of the repacking business and the higher occupancy rate for Macao warehouses were partly offset by the slowing economy. We expect that the business will grow more following the completion of a new ambient warehouse in our Yuen Long Logistics Centre in early 2017, as well as a new logistics centre in the Hengqin Special Region.

LFA Business

On 30 June 2016, DCH successfully completed the acquisition of LF Distribution Holding Limited ("*LFA*"), a leading pan-Asian distribution and manufacturing platform for FMCG and healthcare products. *LFA* has started integrating with the group in the areas of IT, back-office resources, logistics needs and office premises in order to create synergy, achieve economies of scale and save costs. In the second half of 2016, *LFA* recorded segment turnover of HK$3,881 million and a segment result from operations of HK$106 million.

LFA operates in 10 markets covering mainland China, Hong Kong, Macao, Taiwan, Thailand, Malaysia, Singapore, Indonesia, the Philippines and Brunei. Geographically, *LFA* operations are well positioned to capture opportunities in the fast-growing markets of Greater China and South East Asia, and to benefit from the "One Belt One Road" initiative.

In mainland China, the performance of the healthcare business was in line with expectations. This was driven by both the government pharmaceutical tender business and hospital / wholesaler sales. The integration of the FMCG business with DCH China will be completed in 2017.

In Hong Kong and Macao, *LFA* has maintained its leadership position – particularly in the confectionary sector – with a strong new business pipeline despite the general slowdown of the FMCG industry. The healthcare segment continued to trend upward in terms of sales, benefiting from increased spending in both the public and private sectors. *LFA* healthcare's infrastructure is operating at close to full capacity, and we are planning infrastructure expansion for the coming years.

In Southeast Asia, *LFA* continued to expand its healthcare network, particularly in Thailand. We also continued to build scale in our FMCG business network in key markets including Singapore, Malaysia and the Philippines.

Our acquisition of *LFA* presents a timely opportunity to review the technology systems in use by all of our trading and distribution businesses. And after initiating a thorough and in-depth system review over the second half of 2016, DCH will be investing no less than HK$140 million over the next three years to implement core systems that support crucial business functions, including upstream manufacturing, midstream distribution and downstream retailing operations. This is also expected to increase productivity by streamlining and automating processes, as well as improving controls and visibility across all our supply chain operations.

Outlook

Looking forward into 2017, the fluctuation in exchange rates of major currencies, the changes of government policy of developed countries due to new elections and the merging of protectionism in international trade make the economic outlook of 2017 very unclear. Fortunately, our major market in mainland China remains stable with reasonable GDP growth. Therefore, it is expected the motor dealership business in mainland China will be steady with normalised return to the Group in the coming years. For Hong Kong and Other Markets, the Motor Business would benefit if the Japanese Yen weakening trend continued in 2017.

Food and Consumer Products Business however is undergoing an adjustment in mainland China. It is expected that it would recover from the difficult period in 2016 and pave way for the new business model. For the Hong Kong and Other Markets, DCH, with the enlarged scale after integrating *LFA* will have a strong position in the business and improved profitability after realising the benefits of economies of scale. However, the retail segment may continue to suffer and the Group will continue to re-engineer the business model to recover from the downturn due to the weak spending sentiment.

For healthcare products business, it will provide steady incomes to the Group and with the collaboration among our principals and CITIC Group, DCH will strive to grow the business into one of the core profit contributors to the Group.

FINANCIAL REVIEW

OPERATING RESULT

For the year ended 31 December 2016, the Group recorded a turnover of HK$46,462 million, an increase of 3.7% against last year (2015: HK$44,803 million). If excluding the turnover generated from LFA Business, the Group recorded a decrease in turnover in both Motor and Motor Related Business and Food and Consumer Products Business. Profit attributable to shareholders decreased by 10.4% to HK$511 million (2015: HK$570 million) which was included the profit contribution from LFA Business. If the profit contribution from LFA Business was excluded, all business segments recorded a drop in profit except Motor and Motor Related Business in mainland China and Food and Consumer Products Business in other markets.

TURNOVER

Turnover in 2016 was HK$46,462 million, increased by 3.7% as compared with HK$44,803 million in 2015. The increase was mainly due to the inclusion of turnover from LFA business since July 2016.

- **Motor and Motor Related Business**
  Our Motor and Motor Related Business segment turnover, which contributed more than two-third of the Group's total turnover, decreased by 4.4% to HK$32,598 million (2015: HK$34,097 million).

  Our turnover in mainland China was negatively impacted by the adverse RMB retranslation effect. However, this impact was partly compensated by the volume growth in passenger cars which led to our turnover slightly dropped by 1.8% to HK$24,555 million.

  In Hong Kong and Macao segment, our turnover decreased by 17.5% to HK$5,664 million as a result of the decrease in demand in both commercial vehicles and passenger cars. In 2015, the HKSAR government ex-gratia payment scheme for the replacement of aged diesel commercial vehicles had brought a strong commercial vehicle sales. In spite of the narrow down of this scheme in 2016, the commercial vehicle sales dropped. Year-on-year decline in passenger car sales was driven by competitive pricing of major European players due to the weak Euro.

  In the other markets, we recorded a turnover growth of 6.6% which was supported by the strong commercial vehicle business in Taiwan and Singapore.

- **Food and Consumer Products Business**

  Turnover of Food and Consumer Products Business segment was HK$9,952 million, a decrease of 7.1% as compared to that of last year (2015: HK$10,710 million).

  In mainland China segment, turnover decreased by 12.8% to HK$4,000 million which was mainly attributable to our FMCG food business. Sales shortfall was seen in all categories (i.e. confectionary, snacks, dairy product and beverage, etc) which was severely impacted by the weak consumer sentiment.

  Turnover in Hong Kong and Macao segment has a mild decrease of 3.7% to HK$5,397 million. The mild decrease was due to softness in our food commodity, food manufacturing and retail business but partly compensated by the strong growth in Gilman Group which was acquired in last year.

  In the other markets, an increase of 7.6% to HK$555 million was contributed from improved food business in Singapore.

- **LFA Business**

  Turnover of LFA Business segment was HK$3,881 million, comprising 54% contribution from distribution of consumer goods while 46% from distribution of healthcare products.

SEGMENT PROFIT AFTER TAXATION

Segment profit after taxation in 2016 was HK$997 million, a decrease of 8.5% as compared with HK$1,090 million in 2015.

- **Motor and Motor Related Business**

  Segment profit after taxation decreased by 12.5% to HK$759 million (2015: HK$867 million).

  Our mainland China segment profit after taxation increased by nearly 10 times from HK$23 million in 2015 to HK$220 million in 2016 despite a decrease in turnover, largely as a result of improved gross margin for new car sales, enhanced after-sales business profitability and reduced operating costs.

  However, segment profit after taxation of Hong Kong and Macao segment substantially dropped by 37.5% to HK$427 million (2015: HK$683 million). Decline in margin from increased purchase cost due to Japanese Yen appreciation together with year-on-year drop in sales has negatively impacted the segment result.

  Segment profit after taxation in other markets decreased from HK$161 million in 2015 to HK$112 million in 2016, which was mainly due to provisions for inventories made for passenger cars in Taiwan.

- **Food and Consumer Products Business**

  Segment profit after taxation was HK$87 million, representing 42.0% decrease as compared to that of last year (2015: HK$150 million).

  Mainland China incurred segment loss after taxation of HK$117 million (2015: loss of HK$53 million), primarily caused by our FMCG food business. In 2016, apart from the softness in sales in FMCG food business, the result reflects one-off expenses including clearance of aged stock by deep discounts, written-off of inventories with expiring shelf life, provision for impairment on uncollectable receivables and gains on disposals of subsidiaries and an associate with a view to realise the value of these investments.

  In Hong Kong and Macao, segment profit after taxation decreased slightly by 0.9% to HK$214 million as a result of turnover decline in food business. The rising rental in both commercial and industrial sector has further increased our cost pressure. Nevertheless, the shortfall was partly compensated by the encouraging performance in our electrical appliances business.

- **LFA Business**

  Segment profit after taxation was HK$85 million, with both consumer and healthcare business performance in line with expectation.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders of the Company was HK$511 million, decreased by 10.4% as compared with HK$570 million in 2015. The performance was mainly affected by the decrease in profit for the Hong Kong Motor and Motor Related Business and the losses incurred in FMCG food business in mainland China. On the other hand, the Motor and Motor Related Business in mainland China achieved encouraging growth. During the year, the Group has disposed of certain subsidiaries and an associate with a view to realise the value of these investments and realised a gain (before tax) of HK$249 million and HK$89 million respectively. Subsequent to year end on 27 January 2017, the Group entered into a real estate sales and purchase agreement with an independent third party to dispose of an investment property in Japan with a total consideration of JPY5,500.0 million (equivalent to approximately HK$366 million). A remeasurement gain (before tax) of HK$188 million was recognised in the consolidated statement of profit or loss for the year ended 31 December 2016.

EARNINGS PER SHARE

Calculation of basic earnings per share for the year ended 31 December 2016 was based on the profit attributable to shareholders of the Company and the weighted average number of 1,832,133,000 (2015: 1,832,081,767) ordinary shares in issue during the year. Basic earnings per share was 27.89 HK cents for 2016, a decrease of 10.4% as compared with 31.11 HK cents for 2015.

The diluted earnings per share for the year ended 31 December 2016 was the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

DIVIDEND PER SHARE

The Board of Directors proposed payment of a final dividend of 3.69 HK cents per share for the year ended 31 December 2016 (2015: 6.40 HK cents), together with the interim dividend of 4.75 HK cents per share (2015: 6.10 HK cents) already paid, the total dividend for 2016 was 8.44 HK cents per share (2015: 12.50 HK cents).

FINANCE COSTS

The Group's finance costs decreased by 10.8% to HK$189 million (2015: HK$212 million) mainly due to the repayment of RMB bank loans, as well as rate reduction after series of negotiation with banks despite there is an increase in loan balance due to acquisition of LFA Business in June this year.

INCOME TAX

Income tax increased by 62.6% to HK$465 million (2015: HK$286 million). The effective tax rate for the year was 42.4% (2015: 30.6%) mainly due to one-off tax settlement with the Hong Kong Inland Revenue Department, as well as the loss making units in mainland China reduced the profit before taxation and there is no group relief in mainland China.

NET ASSET VALUE PER SHARE

Calculation of net asset value per share was based on the net asset value of the Group of HK$9,244 million (31 December 2015: HK$9,488 million) and the 1,832,133,000 ordinary shares issued at 31 December 2016 (31 December 2015: 1,832,133,000 ordinary shares). Net asset value per share at 31 December 2016 was HK$5.05 (31 December 2015: HK$5.18).

CAPITAL COMMITMENTS

Capital commitments outstanding at the end of the reporting period not provided for in the financial statements are as follows:

HK$ million	**2016**	2015	Change
Contracted for			
- Capital expenditures	**267**	95	172
- Others	**-**	1	(1)
At 31 December	**267**	96	171
Authorised but not contracted for			
- Capital expenditures	**178**	241	(63)
At 31 December	**178**	241	(63)

CONTINGENT LIABILITIES

At 31 December 2016, the Group has issued guarantees to banks in respect of banking facilities of HK$75 million (2015: HK$75 million) granted to and utilised by an associate of HK$33 million (2015: HK$26 million).

A subsidiary has issued a guarantee of EUR1.2 million at 31 December 2016 and 2015 to a trade creditor of an associate.

CAPITAL EXPENDITURE

In 2016, the Group's total capital expenditure was HK$612 million (2015: HK$651 million) and major usages are summarised as follows:

Motor and Motor Related Business	–	For renovating 4S dealerships in mainland China and acquisition of motor vehicles for demo cars and leasing businesses in Hong Kong and mainland China
Food and Consumer Products Business	–	Fixtures and fittings, plant and equipment and logistics facilities
LFA Business	–	Fixtures and fittings and plant and equipment

HK$ million	**2016**	2015	Change
Motor and Motor Related Business	**441**	444	(3)
Food and Consumer Products Business	**90**	158	(68)
LFA Business	**26**	-	26
Other Business	**45**	29	16
Corporate Office	**10**	20	(10)
At 31 December	**612**	651	(39)

TREASURY POLICY

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. Local cash pooling and cross-border cash pooling are applied in Hong Kong and mainland China for more efficient utilisation of cash.

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 head office. Financing activities outside Hong Kong are reviewed and approved by head office before execution.

CASH FLOW

Summary of Consolidated Cash Flow Statement

HK$ million	**2016**	2015	Change
Operating profit before changes in working capital	**1,614**	1,779	(165)
Decrease in working capital	**986**	1,625	(639)
Cash generated from operations	**2,600**	3,404	(804)
Income tax paid	**(366)**	(374)	8
Net cash generated from operating activities	**2,234**	3,030	(796)
Net cash used in investing activities	**(1,999)**	(610)	(1,389)
Dividends paid to shareholders of the Company	**(204)**	(233)	29
Net cash generated from / (used in) financing activities	**151**	(2,455)	2,606
Net increase / (decrease) in cash and cash equivalents	**182**	(268)	450

Operating profit before changes in working capital

Profit before taxation was HK$1,097 million in 2016 (2015: HK$934 million). After adding back the finance costs and non-cash items like depreciation and amortisation and impairment losses, and excluding the non-cash exceptional items like net gain on remeasurement of investment properties and foreign exchange loss, operating profit before changes in working capital was HK$1,614 million (2015: HK$1,779 million).

Decrease in working capital

In 2016, working capital decreased by HK$986 million which included the decrease in inventories of HK$1,039 million; the increase in trade debtors and other receivables of HK$120 million, and the increase in trade creditors and other payables of HK$67 million. The decrease in working capital was mainly due to the decrease in vehicle stock both in Hong Kong and the mainland China.

In 2015, working capital decreased by HK$1,625 million which included the decrease in inventories of HK$1,739 million with the decrease in vehicle stock both in Hong Kong and the PRC (total inventories decreased by HK$1,912 million taking into account the exchange impact); the decrease in trade debtors and other receivables of HK$62 million was offset by the decrease in trade creditors and other payables of HK$176 million.

Net cash generated from operating activities

In 2016, cash generated from operations, after taking into account the decrease in working capital, was HK$2,600 million. Together with the tax paid of HK$366 million, net cash generated from operating activities was HK$2,234 million.

In 2015, cash generated from operations, after taking into account the decrease in working capital, was HK$3,404 million. Together with the tax paid of HK$374 million, net cash generated from operating activities was HK$3,030 million.

Net cash used in investing activities

In 2016, payment for purchase of property, plant and equipment and lease prepayments were HK$646 million and net cash outflow for business combination was HK$2,096 million, after netting off the net proceeds from disposal of property, plant and equipment of HK$197 million and net cash generated from other investing activities of HK$546 million, net cash used in investing activities was HK$1,999 million.

In 2015, payment for purchase of property, plant and equipment and lease prepayments were HK$657 million. After netting off the net proceeds from disposal of property, plant and equipment of HK$200 million and net cash used in other investing activities (mainly for business combinations) of HK$153 million, net cash used in investing activities was HK$610 million.

Net cash used in financing activities

In 2016, net cash used in financing activities was HK$53 million. This was mainly due to the net proceeds from bank loans and other loans of HK$890 million, tax indemnity recovered from an intermediate holding company of HK$22 million, partly offset by repayment of loans to newly acquired subsidiaries' former related parties of HK$480 million, net cash outflow to holders of non-controlling interests of HK$76 million, interest paid of HK$205 million and dividends paid to shareholders of the Company of HK$204 million.

In 2015, net cash used in financing activities was HK$2,688 million. This was mainly due to the net repayment of bank and other loans of HK$2,129 million and net cash outflow to holders of non-controlling interests of HK$117 million, interest paid of HK$209 million and dividends paid to shareholders of the Company of HK$233 million.

GROUP DEBT AND LIQUIDITY

The financial position of the Group at 31 December 2016 is summarised as follows:

HK$ million	**2016**	2015	Change
Total debt	**7,424**	6,550	874
Cash and bank deposits	**1,160**	1,110	50
Net debt	**6,264**	5,440	824

The Group has established various local RMB cash pools and cross-border RMB cash pool for more effective use of cash in the PRC and the RMB cash balance has been reduced.

The original denomination of the Group's borrowings as well as cash and bank deposits by currency at 31 December 2016 is summarised as follows:

HK$ million equivalent	HKD	RMB	JPY	USD	SGD	NTD	Others	**Total**
Total debt	3,905	479	297	2,461	25	192	65	**7,424**
Cash and bank deposits	123	710	39	20	37	24	207	**1,160**
Net debt / (cash)	3,782	(231)	258	2,441	(12)	168	(142)	**6,264**

Leverage

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

At 31 December 2016, the Group's net gearing ratio was 41.8%, compared to 37.6% at 31 December 2015.

HK$ million	**2016**	2015	Change
Net debt	**6,264**	5,440	824
Shareholders' funds	**8,732**	9,047	(315)
Total capital	**14,996**	14,487	509
Net gearing ratio	**41.8%**	37.6%	4.2%

Net debt increased in 2016 mainly due to the financing of the acquisition of LFA Business.

The effective interest rate of the Group's borrowings at 31 December 2016 was 2.4% (31 December 2015: 2.8%) with the increase in HKD and USD bank borrowings which carries a lower interest rate versus RMB bank borrowings.

Maturity Profile of Outstanding Debt

The Group manages its debt maturity profile actively based on its cash flow and refinancing ability upon debt maturity. At 31 December 2016, the borrowings were repayable as follows:

	HK$ million	% of total
Within 1 year or on demand	**2,357**	32%
After 1 year but within 2 years	**1,317**	18%
After 2 years but within 5 years	**3,750**	50%
Total	**7,424**	100%

Available Sources of Financing

In addition to cash and bank deposits of HK$1,160 million at 31 December 2016 (31 December 2015: HK$1,110 million), the Group had undrawn available loan facilities of HK$8,243 million (31 December 2015: HK$7,510 million), of which HK$390 million (31 December 2015: HK$300 million) was committed term loans and HK$7,853 million (31 December 2015: HK$7,210 million) was uncommitted money market lines. The Group also had available trade facilities amounting to HK$4,915 million (31 December 2015: HK$3,917 million). Borrowings by sources of financing at 31 December 2016 are summarised as follows:

HK$ million	**Total**	Utilised	Available
Committed facilities:			
Term loans and revolving loans	**6,739**	6,349	390
Uncommitted facilities:			
Money market lines	**8,828**	975	7,853
Trading facilities	**6,222**	1,307	4,915

Available Sources of Financing (Continued)

These could be reconciled to the total debt at 31 December 2016 as follows:

HK$ million	**2016**	2015	Change
Utilised term loans and revolving loans	**6,349**	4,474	1,875
Utilised money market lines	**975**	2,004	(1,029)
Discounted bills and trade loans	**121**	90	31
Others	**(21)**	(18)	(3)
Total	**7,424**	6,550	874

PLEDGED ASSETS

At 31 December 2016, the Group's assets of HK$355 million (31 December 2015: HK$399 million) were pledged in relation to financing of issuance of bank acceptance drafts and purchase of vehicles stock in mainland China, discounted bills in Japan and discounted bankers acceptance draft in Malaysia.

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

HUMAN RESOURCES

As at 31 December 2016, the Group had a total of 18,308 employees, an increase of 2,101 or 13% from 2015 level. There were 11,234 employees in mainland China, 4,825 in Hong Kong and Macao, and 2,249 in other locations including Japan, Taiwan, Singapore, Myanmar, Indonesia, Malaysia, Brunei, Thailand and the Philippines.

Human Resources Management
The Group is an equal opportunity employer, offering equal employment and advancement opportunities to all candidates and employees as well as implementing fair and consistent human resources policies and programmes. The Group also upholds high standards of business ethics and personal conduct of its employees.

Remuneration
The Group reviews its remuneration schemes annually to ensure its market competitiveness in the motivation and retention of employees who have the relevant skills, knowledge and performance to sustain the continued success of its businesses.

Training and Development
The Group continues implementing a wide variety of training and development programmes to support the growth needs of the business and the employees. To meet future manpower needs, various internship, apprenticeship and traineeship programmes were also organised.

Employee Care
The Group emphasises caring for the employees, striving to enrich both their work and personal lives through various kinds of occupational health programmes as well as sports, social and recreational activities.

CORPORATE GOVERNANCE

DCH is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. A full description of DCH's corporate governance will be set out in the Environmental, Social and Governance Report contained in the 2016 Annual Report.

Throughout the year ended 31 December 2016, DCH has applied the principles and complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Audit Committee of the Board, consisting of five independent non-executive directors, has reviewed the 2016 financial statements with the management and DCH's internal and external auditors and recommended its adoption by the Board.

DIVIDEND AND CLOSURE OF REGISTER

The Directors have resolved to recommend to shareholders the payment of a final dividend of 3.69 HK cents per share (2015: 6.40 HK cents per share), which together with the interim dividend of 4.75 HK cents per share (2015: 6.10 HK cents per share) already paid makes a total dividend of 8.44 HK cents per share (2015: 12.50 HK cents per share) for the year ended 31 December 2016. The total dividend of 8.44 HK cents per share will amount to HK$155 million of DCH's profit for the year ended 31 December 2016 (2015: HK$229 million).

The proposed final dividend of 3.69 HK cents per share, the payment of which is subject to approval of the shareholders at the annual general meeting of DCH to be held on Monday, 22 May 2017 ("2017 AGM"), is to be payable on Wednesday, 21 June 2017 to shareholders whose names appear on the register of members of DCH on Wednesday, 31 May 2017.

The register of members of DCH will be closed during the following periods:

(i) from Wednesday, 17 May 2017 to Monday, 22 May 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at 2017 AGM. In order to be eligible to attend and vote at 2017 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with DCH's Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 16 May 2017; and

(ii) from Monday, 29 May 2017 to Wednesday, 31 May 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the DCH's Share Registrar, Tricor Investor Services Limited at the address as set out in sub-paragraph (i) above not later than 4:30 p.m. on Friday, 26 May 2017.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be effected.

PURCHASE, SALE OR REDEMPTION OF SHARES

DCH has not redeemed any of its shares during the year ended 31 December 2016. Neither DCH nor any of its subsidiary companies has purchased or sold any of DCH's shares during the year ended 31 December 2016.

FORWARD LOOKING STATEMENTS

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent DCH's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

ANNUAL REPORT AND FURTHER INFORMATION

A copy of this announcement can be found on DCH's website (www.dch.com.hk) and the Stock Exchange's website (www.hkexnews.hk). The 2016 Annual Report will be made available on the respective websites of DCH and the Stock Exchange on or about 30 March 2017.

By order of the Board
Kam Yiu Sai, Florence
Company Secretary

Hong Kong, 28 February 2017

As at the date of this announcement, the directors of DCH are:

Executive directors: *Yip Moon Tong, Lai Ni Hium and Lau Sei Keung*

Non-executive directors: *Zhang Jijing (Chairman), Kwok Man Leung and Fei Yiping*

Independent non-executive directors: *Hsu Hsung, Adolf, Yeung Yue Man, Chan Kay Cheung, Chan Hui Dor Lam, Doreen and Woo Chin Wan, Raymond*