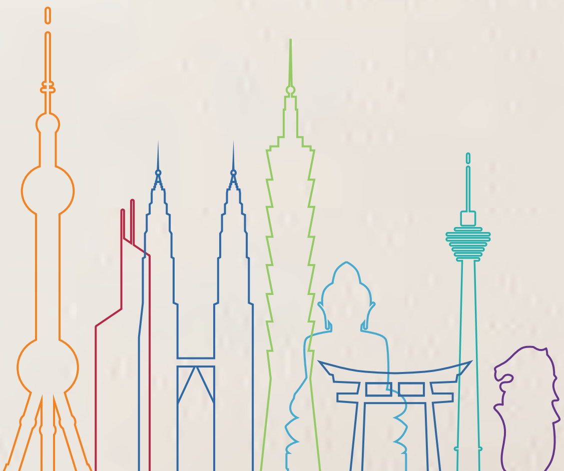
大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

Stock Code: 01828

ANNUAL REPORT
2016



About DCH

Dah Chong Hong ("DCH", stock code: 01828) is an integrated trading and distribution company operating in Asia, supported by an extensive logistics network. DCH is a leading distributor and dealer of motor vehicles in Greater China as well as a provider of a full range of associated services. DCH's consumer business comprises the manufacture and distribution of food, healthcare, electrical appliances, beauty and lifestyle products.

Dedicated to bringing quality products to consumers throughout Asia, DCH has 68 years of experience in helping principals penetrate local markets. The preferred partner of over 1,000 brands in more than 30 countries and regions, DCH offers a full range of value-added tailored solutions from positioning and marketing to wholesale, retail, after-sales support.

A subsidiary of China's largest conglomerate CITIC Limited (stock code: 00267), DCH employs over 18,000 staff across the region. For more details, please visit www.dch.com.hk.

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Financial Highlights

For the year (HK$ million)	2016	2015
Turnover	**46,462**	44,803
Profit from operations	**1,065**	1,093
Profit attributable to shareholders	**511**	570
Segment profit after taxation		
Motor and Motor Related Business	**759**	867
Food and Consumer Products Business	**87**	150
LFA business	**85**	–
Other Business	**66**	73

At year end (HK$ million)	2016	2015
Total debt	**7,424**	6,550
Cash and bank deposits	**1,160**	1,110
Net debt	**6,264**	5,440
Shareholders' funds	**8,732**	9,047
Total capital	**14,996**	14,487
Capital employed	**16,156**	15,597
Net gearing ratio	**41.8%**	37.6%

For the year (HK cents)	2016	2015
Earnings per share	**27.89**	31.11
Dividend per share		
Interim	**4.75**	6.10
Final	**3.69**	6.40
Total	**8.44**	12.50

Chairman's Letter *to* Shareholders

Zhang Jijing *Chairman*

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 and receivable 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 one of 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

MOTOR and MOTOR RELATED BUSINESS

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.

Business Review (Continued)

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

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-graft 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.21 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.

Business Review (Continued)

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.

Business Review (Continued)

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 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.

Note:
Segment profit after taxation represents profit after taxation from each reportable segment including share of profit after tax of associates and joint ventures. Items not specifically attributable to individual segment are not allocated to the reportable segments.

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

Please refer to note 32(a) to the financial statements for details of capital commitments outstanding at 31 December 2016.

CONTINGENT LIABILITIES

Please refer to note 33 to the financial statements for details of contingent liabilities at 31 December 2016.

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.

Financial Review (Continued)

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

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

Risk Management

The Group has established a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's business activities.

The risk management system of the Group is established in line with global standard, and comprises the "Three Lines of Defence" including the management of each business units, the risk management function of the Group and the internal audit function.

The Board has identified the top risks of the Group which are summarized in a Risk Appetite Statement and determined how much risk the Board is willing to take to achieve the Group's strategic objectives. The Group has also prepared a Risk Management Policy based on the above risk appetite and conduct regular review of operational and financial risks as reported by each business unit. Each business unit is required to identify risks on a day-to-day basis, to update the Risk Register of any major issues and to report any major risk to the Group.

Based on the risk profile of each business unit, and take into account the management control and corporate oversight at Group level, the Audit Committee and Internal Audit function would map out a risk-based internal audit plan each year.

The Finance Committee is delegated by the Board to establish or renew financial and credit facilities and undertake financial and credit transactions in accordance with the Treasury Policy of the Group. The Treasury Department of the Group is responsible for communicating and implementing the decision of the Finance Committee, monitoring the adherence of the Treasury Policy and preparing relevant reports. All business units have the responsibilities for identifying and effectively managing their financial risks positions and reporting to the Group's Treasury Department on a timely basis.

FINANCIAL RISK

(1) Interest rate risk

The Group's committed bank borrowings are on a floating rate basis.

In 2016, the Group entered into a number of interest rate swaps for hedging purpose with a total notional contract amount of HK$468 million (2015: HK$620 million) to reduce the impact of interest rate fluctuation on its unsecured bank borrowings. These interest rate swaps will expire in 2019.

As at 31 December 2016, the Group's total outstanding interest rate swaps (including those entered in previous years) had a total notional contract amount of HK$1,588 million (31 December 2015: HK$1,720 million).

As at 31 December 2016, the Group recognised interest rate swaps with the fair value of HK$10 million assets (31 December 2015: HK$6 million liabilities) as derivative financial instruments.

As at 31 December 2016, the interest rate of 25% of committed bank borrowings were fixed by interest rate swaps. The coverage was considered appropriate.

(2) Currency risk

For bank borrowings, functional currency of each operating entity is generally matched with its liabilities. As such, 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 are related. As at 31 December 2016, the Group recognised foreign currency forward contracts with a fair value of HK$12 million liabilities (31 December 2015: HK$1 million liabilities) as derivative financial instruments.

In addition, certain bank borrowings denominated in Japanese Yen were designated as a hedge of the net investment in a subsidiary in Japan. The carrying amount and the fair value of these bank borrowings as at 31 December 2016 was HK$213 million (2015: HK$206 million).

As of 31 December 2016, the Group has reviewed its foreign hedging position and considered it appropriate.

(3) Counterparty risk in Treasury

The Group's counterparty risk in treasury primarily related to the deposits placed with banks and the delivery ability of banks on foreign exchange and other derivatives transactions for hedging purposes.

The Group has set up limits for the banks to allow the Group to deal with appropriate counterparties whose abilities were evaluated and concentration risk addressed.

The limits were correlated to the banks' credit ratings, loan limits granted to the Group and business relationships.

(4) Liquidity risk

Liquidity risk occurs when the Group cannot meet its short-term operational and debt obligations.

The Group monitors liquidity risk by keeping the rolling base cash flow forecast for the following 12 months and comparing liquid assets with short-term liabilities.

The Group maintains adequate level of cash together with sufficient available loan facilities in order to fulfill the requirements for normal operation, matured debt repayment and new business development.

OPERATION RISK

(1) Discontinuation of distributorship/dealership rights

The core business of the Group is to act as the distributors or dealers for motor, food, healthcare, and other consumer products. In the event where distributorship/dealership rights are discontinued, it may have a significant impact on the business.

The Group has adopted a multi-brand and diversified market exposure approach to avoid over-reliance on one particular brand or single market.

(2) Counterparty credit risk in operation

The Group's counterparty risk in operation mainly arises from trade debtors and other receivables billed to customers and principals respectively.

Credit risk from trade debtors arises from sale of goods and rendering of services to customers. Due to the Group's diversified business nature, the Group maintained a relatively limited customer concentration risk.

Credit risk arising from other receivables billed to principals includes advance payments made on behalf of the principals for advertising and promotion activities. These pre-payments will be reimbursed and recoverable from the principals when proper documentation and confirmation are obtained.

The Group and relevant subsidiaries established credit policies and procedures to analyze and identify credit risks, set appropriate credit limits and controls, monitor the risks on timely basis by means of reliable management information systems. The Group performs regular updates to enhance the credit policies in order to cope with the changes in markets, products and practice of credit risk management.

Individual credit assessments are performed on both principals and customers to determine suitable credit limits and terms. Regular review on credit limits and terms are also performed in order to ensure those are comparable to the credit standing of the principals, customers and the latest business environments.

(3) Accidental losses

The logistics business operates in a high risk environment, which is exposed to loss due to product damage and loss at the warehouses or during transportation, or industrial and occupational accidents due to the large number of machinery and equipment which require manual operation by individuals.

The Group has purchased various insurance policies to cover such risk of losses for its logistics operations. However, the Group may not be fully indemnified from severe or exceptional accidents not included in its standard insurance policies. In those occasions, losses will be borne by the Group and may materially and adversely impact on the Group's business, financial position and results of operation.

(4) Inventory obsolescence risk

The range of products that the Group sells include perishable food commodities and FMCG products which have a limited shelf life. These products will require specific storage conditions to maintain their quality. As the age of the products increases and the value of the products reduces, the risk of obsolescence will result.

In situations where the Group purchases the products from its principals and then distributes such products to wholesalers, retail outlets and food service industry, the Group faces inventory obsolescence risk since changes in consumers' tastes and trends may lead to substantial changes in demand. Overstocking, poor demand or returned goods from customers will create conditions resulting in inventory obsolescence as well.

In addition, the models for motor vehicles and electrical appliances distributed by the Group are constantly changing, depending on the research and development of the principals or manufacturers of these products. Any release of new models to these products will increase the risk of obsolescence for existing products and models. Accordingly, any unpredicted and unusual change in consumer demand will adversely affect the Group's performance.

The Group had established policies and guidelines to ensure every business unit to review its problem stocks with action plans for stock clearance on a monthly basis, such as aged stocks, stock close to expiry dates and slow moving stocks. Progress on stock clearance is monitored and followed up closely by both Group Financial Control and the business units. Stock count policies requiring full count and cycle count had been set up to control the accuracy of the stock record. In addition, proper authorisation hierarchy and limits had been implemented to manage stock purchases.

Five Year Summary

At year end (HK$ million)	**2016**	2015	2014	2013	2012
Total debt	**7,424**	6,550	8,661	7,424	6,409
Cash and bank deposits	**1,160**	1,110	1,493	2,173	3,225
Net debt	**6,264**	5,440	7,168	5,251	3,184
Shareholders' funds	**8,732**	9,047	9,322	8,994	8,511
Total capital	**14,996**	14,487	16,490	14,245	11,695
Capital employed	**16,156**	15,597	17,983	16,418	14,920
Net gearing ratio	**41.8%**	37.6%	43.5%	36.9%	27.2%
Interest cover (times)	**10**	8	7	9	7
Property, plant and equipment	**3,318**	3,485	3,821	3,798	3,358
Investment properties	**215**	384	374	366	565
Lease prepayments	**499**	568	551	537	491
Interests in associates	**175**	350	350	224	236
Interests in joint ventures	**364**	411	415	426	254

For the year (HK$ million)	**2016**	2015	2014	2013	2012
Turnover	**46,462**	44,803	46,489	42,261	48,014
Profit attributable to shareholders	**511**	570	750	901	1,045
Basic earnings per share (HK cents)	**27.89**	31.11	40.94	49.21	57.24
Diluted earnings per share (HK cents) Note	**27.89**	31.11	40.94	49.15	57.06
Net gain on remeasurement of investment properties	**3**	18	10	19	43
EBITDA	**1,867**	1,744	1,935	2,074	2,362
Dividend per share	**HK cents**	HK cents	HK cents	HK cents	HK cents
Interim	**4.75**	6.10	9.30	8.68	11.78
Final	**3.69**	6.40	6.60	10.72	8.88
Total	**8.44**	12.50	15.90	19.40	20.66

Note:
The diluted earnings per share for the years 2014, 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.

Five Year Key Operation Data

Total number of new vehicles sold by DCH

Year	2016	2015	2014	2013	2012
Location					
Mainland China	**100,297**	95,592	97,200	84,562	81,042
Hong Kong	**10,431**	12,820	12,695	10,481	8,798
Macao	**870**	1,828	2,111	2,370	2,058
Other Markets	**5,434**	4,879	3,830	3,551	2,718
Total	**117,032**	115,119	115,836	100,964	94,616

Total number of 4S shops in mainland China

Year end	2016	2015	2014	2013	2012
4S shops	**80**	78	79	75	69

Total number of motor vehicle showrooms in Hong Kong

Year end	2016	2015	2014	2013	2012
Motor vehicle showrooms	**11**	12	11	11	11

Total number of DCH food retail outlets in Hong Kong

Year end	2016	2015	2014	2013	2012
DCH Food Mart	**7**	17	24	35	39
DCH Food Mart Deluxe	**50**	68	66	56	46
Total	**57**	85	90	91	85

Environmental, Social and Governance Report

ENGAGING OUR STAKEHOLDERS

DCH makes every effort to engage all of its stakeholders – including shareholders, investors, employees, customers, suppliers, business partners, the media, the government, regulators and the wider community – to achieve sustainable development.

SHAREHOLDERS AND INVESTORS

DCH continuously seeks to enhance its communications with shareholders. The annual general meeting provides a regular opportunity for our management to meet shareholders face to face. In addition, our annual reports, interim reports and public announcements are available on the DCH corporate website for shareholders and investors to view at any time. The Group also hosts periodic discussions with the financial community – including institutional investors, analysts and fund managers – at roadshows as well as individual and group meetings to keep investors abreast of our latest business developments.

GOVERNMENT AND REGULATORS

DCH has a diversified business portfolio that spans a variety of industries and sectors. The Group has taken a number of measures to ensure compliance with the latest laws, rules and regulations. Legal counsel is also sought whenever necessary to ensure that each action and decision taken is in full compliance with local laws and regulations.

For more details about our compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), please refer to the compliance section (p.41 to 61).

SUPPLIERS AND BUSINESS PARTNERS

Sound supply chain management ensures that DCH can sustain its business operations and development. Because we source our products from all over the world, we must apply stringent rules to these sourcing procedures. We pay careful attention to whether each supplier and business partner's operational and product standards are conducted in accordance with local and international laws and regulations. Our suppliers have also obtained industry-recognised certifications and qualifications to produce our motor, food, consumer goods and other products.

Food safety is the top priority throughout DCH's total food supply chain management. We have implemented various measures to ensure food safety, from our processing plants and packaging lines to delivery and sales channels. Before food products are sold through our distribution channels, we carry out sample tests to further ensure their safety. We have also obtained HKQAA, HACCAP and ISO22000 certifications for our food processing plants in Hong Kong.

MEDIA

The media is one of the most important communication channels between DCH and the public. DCH regularly holds interviews, gatherings and site visits so that members of the media can convey our latest developments to various stakeholders across the community. We also issue press releases and host press conferences whenever important announcements need to be made to the public.

CUSTOMERS

1. Customer protection

DCH strictly complies with the Personal Data (Privacy) Ordinance. Customer personal data is highly protected, and clear, stringent guidelines for the use of customer information are defined and communicated throughout the whole Group to prevent any possible leakage.

2. Customer engagement

Being a customer care company, we value every customer's opinion and feedback. DCH conducts regular Customer Satisfaction Index surveys for its various business units to facilitate our continuous improvement in customer service.

The Group also operates loyalty clubs to strengthen our relationship with customers. These include attractive offers for leisure activities as well as exclusive benefits.

3. Customer service

It is our mission to provide the best customer service possible, and we are dedicated to instilling a customer-centric service culture within DCH. We are one of the founding members of the Hong Kong Association for Customer Service Excellence (HKACE). We also participate in activities that advocate service excellence in Hong Kong; in 2016 these included the HKACE's "Service Appreciation Day" as well as a number of service workshops and seminars. Through these and other activities, we are able to realise our core value of "Excellent Service with Customers First".

EMPLOYEES

1. Working Conditions

The Group has dedicated and competent workforce to support its business expansion strategies and to sustain its development across different countries and locations. The Group promotes fairness, respect to employees and equal opportunities for employment and upholds a high standard of code and conduct.

As at 31 December 2016, the Group had a total of 18,308 employees, with 11,234 in mainland China, 4,825 in Hong Kong and Macao, and 2,249 in other locations, namely, Japan, Taiwan, Singapore, Myanmar, Indonesia, Malaysia, Brunei, Thailand and the Philippines.

Location	**December 2016**	December 2015	December 2016 vs December 2015
Mainland China	**11,234**	11,631	–3.4%
Hong Kong & Macao	**4,825**	3,962	21.8%
Other Locations	**2,249**	614	266.3%
Total	**18,308**	16,207	13.0%

The total number of employees by the end of 2016 was 13% higher than that of 2015. However, the increase on headcount is due to the acquisition of LFA.

2. Remuneration

To attract, motivate and retain talented employees, we constantly review our compensation and benefits programmes to ensure that they are both competitive with the external market and internally equitable among colleagues. Apart from annual reviews, special reviews will also be conducted to align pay packages of well-performing employees with prevailing market conditions, especially under volatile and severe labour markets. "Pay for performance" is the key principle adopted to link rewards to the achievement of key performance indicators to motivate employees to work towards meeting company goals and objectives.

3. Staff Activities

To increase employees' engagement, wellness and sense of belonging to the Group, different social, recreational and health-related activities were arranged in 2016. In Hong Kong, a total of 11 events were organised with 1,894 participants. These events were all well received by employees. To arouse staff awareness of their health condition, we have arranged a series of fitness class including Qigong, Yoga, Tai Chi and Dancing etc.

4. Staff Retention

In 2016, staff turnover rate for Hong Kong and mainland China were 19.3% and 26.1% respectively. Higher staff turnover was experienced among the frontline sales and logistics employees in Hong Kong, and frontline sales and technical employees in mainland China. Measures such as expanding recruitment channels, reviewing employees' compensation and benefits scheme and related terms and conditions, etc., were adopted to recruit and retain talent.

5. Health and Occupational Safety

The Group strives to provide a safe and healthy work environment for all employees. Regular reviews and audits are performed in accordance with the statutory and industry requirements. In Hong Kong, the injury rate, on a per thousand employees basis was 25.96 in 2016. Although it was only slightly lower than the figure of 26.1 in 2015, it has been improving continuously from the figure of 50.5 in 2012.

6. Training and Development

Training and development is one of the keys to success of the Group. And hence, the Group provides various types of training programmes for different levels of employees, including leadership & management, sales & services, personal effectiveness, professional knowledge and compliance training. It aims to achieve continuous improvement and enhance the competence of employees. The total training hours offered in 2016 was over 150,000.

To build the corporate culture, one of the world-class training programmes being introduced is "7 Habits of Highly Effective People". Through this training workshop, common languages within the Group can be built and a win-win & proactive mindset for continuous improvement can also be fostered.

Besides, riding on the current technologies, learning shall not be bound by time and location. To encourage employees to learn anytime, anywhere, the m-Learning tool via WeChat platform has been launched. Since the activation of the mobile learning platform in 4th quarter of 2016, more than 2,300 employees have signed up. The mobile learning platform will be further enhanced with an aim to cultivate the learning culture within the Group.

To build leadership pipeline, different talent development programmes including management trainee and apprenticeship have been proceeding well with aims to get the young talent prepared for the long-term development within the Group.

COMMUNITY

1. Charitable Donations

As a responsible corporate citizen, DCH regularly participates in charity events and offers philanthropic support, both in cash or in kind, to non-government organisations including Oxfam, YMCA, Orbis, Medecins San Frontiers and Green Power. DCH also engages its business units, staff and other stakeholders in different regions to participate in fundraising events, leveraging the Group's business strength to help those in need. For example, we donated more than 12 tonnes of rice for the "Oxfam Rice" event in 2016.

DCH participated in the "Oxfam Trailwalker" event for the 10th consecutive year in 2016. During this time, DCH has not only contributed donations and sponsorships, but also encouraged staff to participate in the event, which is the largest fundraising sports event in Hong Kong. In 2016, DCH formed six teams of 25 walkers to take on the 100km challenge. Thanks to the concerted efforts of our staff and business units, we raised more than $150,000 for Oxfam. DCH also gave in-kind sponsorship of items such as fruit jam and energy drinks for the event.

2. Community

Our DCH Volunteer Team strives to provide "Better Living" for people in the communities where we work and live. The DCH Volunteer Team was established in Hong Kong in 2012 to cultivate the seeds of care across the Group, encourage more staff to participate in community service, and help those in need, with special focus on the elderly, children and the underprivileged.

Following the success of the DCH Volunteer Team in Hong Kong, volunteer activities have since been organised in other regions – including Yunnan, Southern China, Eastern China, Taiwan and Beijing – to further advocate our philosophy of giving back to society. Together with the continuous efforts of our passionate Hong Kong Volunteer Team, Group employees contributed a total of over 4,500 service hours in 2016.

In order to share the DCH Volunteer Team's vision and foster the spirit of community service among the next generation, the Team organised the "Little Volunteers Programme" for children of staff, providing training to equip children with volunteer skills. Afterwards the children put these learnings into practice with a visit to the elderly. Through this programme, we were also able to enlarge our volunteer base with a group of enthusiastic, energetic junior volunteers.

DCH has been the key sponsor of the Mobile Classroom project, our annual showcase event, since 2010. For this initiative, three Mobile Classrooms – minivans donated by DCH – serve children and villagers in remote areas of Sichuan and Yunnan provinces with regular visits. Eight volunteers from different regions joined the Mobile Classroom service trip in 2016, spending seven days with families and schools in the mountainous regions of Yunnan and bringing hope and care to local children. DCH volunteers also gained valuable knowledge of rural village life and interacted with volunteers from other regions to share ideas and experiences.

3. Awards and Recognitions in 2016

DCH has been awarded the "Caring Company" logo by the Hong Kong Council of Social Service for ten consecutive years. We have been earning the "Gold Certificate" for volunteering service from the Social Welfare Department over the years, which recognised our efforts in fulfilling corporate social responsibility. In 2016, our DCH Volunteer Team won the Merit award in the "Volunteer Category" and the Corporate Citizenship Logo in the "Enterprise Category" at the "The 7th Hong Kong Outstanding Corporate Citizenship Awards", organised by the Hong Kong Productivity Council. These are undoubtedly strong recognitions of the Group's efforts in community service. DCH also received its first "Social Capital Builder Awards 2016", given by the Community Investment and Inclusion Fund of the Labour and Welfare Bureau in recognition of the Group's outstanding effort in developing social capital.

CIIF 2016-18 Social Capital Builder 社會資本動力獎

HKCC 2017 Drive for Corporate Citizenship 企業公民嘉許標誌

HKCC 優異獎 第七屆香港傑出企業公民 The 7th HK Outstanding Corporate Citizenship Merit Award 義工隊 Volunteer Team

ENVIRONMENT

1. Green Business

DCH is committed to supporting environmental protection. Over the years we have given our best effort to incorporating concepts of sustainability and eco-friendly elements into every aspects of our business.

In the Motor Business, we advocated green driving by pioneering the introduction of electric buses and environmentally friendly vehicles in Hong Kong. Moreover, we have started to switch from using solvent-based paint to water-borne paint in recent years when doing vehicle maintenance work, minimising the impact to the environment.

In the Food Business, *DCH Food Mart* and *DCH Food Mart Deluxe* participated in the "FoodEver and WasteNever Awards" in 2016 and won the "Gold Award" in the "WasteNever Category", which recognised our effort in adopting Food Life Cycle Management to reduce food waste. This award also aligns with the Group's belief in environmental conservation.

2. Green Office

To create a green working environment, DCH puts the "4Rs" (Reduce, Reuse, Recycle and Replace) into practice. For example, the Group strives to minimise office waste every day. DCH also supports the environmental protection campaigns of various green organisations, such as by participating in the World Wide Fund for Nature Hong Kong's (WWF) "Earth Hour" for eight consecutive years. In addition, our green committee, "Green Care", arranged a series of promotions and activities throughout the year to educate employees on the importance of environmental protection and to introduce the principles of an eco-friendly lifestyle. Initiatives included ecological tours as well as seminars teaching participants how to handle household food waste.

3. Awards and Recognitions in 2016

Award	Organisation
"Class of Excellence" "Wastewi$e Label", Hong Kong Awards for Environmental Excellence	Environmental Campaign Committee
"Class of Excellence" "Energywi$e Label", Hong Kong Awards for Environmental Excellence	Environmental Campaign Committee
"Carbon 'Less' 3% Certificate", Hong Kong Awards for Environmental Excellence	Environmental Campaign Committee
"IQAwi$e Labels", Hong Kong Awards for Environmental Excellence	Environmental Campaign Committee
"Gold Label" in the Low-carbon Office Operation Programme (LOOP) Labelling Scheme	World Wide Fund for Nature Hong Kong
"Pearl Membership"	World Wide Fund for Nature Hong Kong
"Pilot Companies" in the "Green Office Awards Labelling Scheme (GOALS)"	World Green Organisation
"Better World Company"	Junior Chamber International Hong Kong

CORPORATE GOVERNANCE PRACTICES

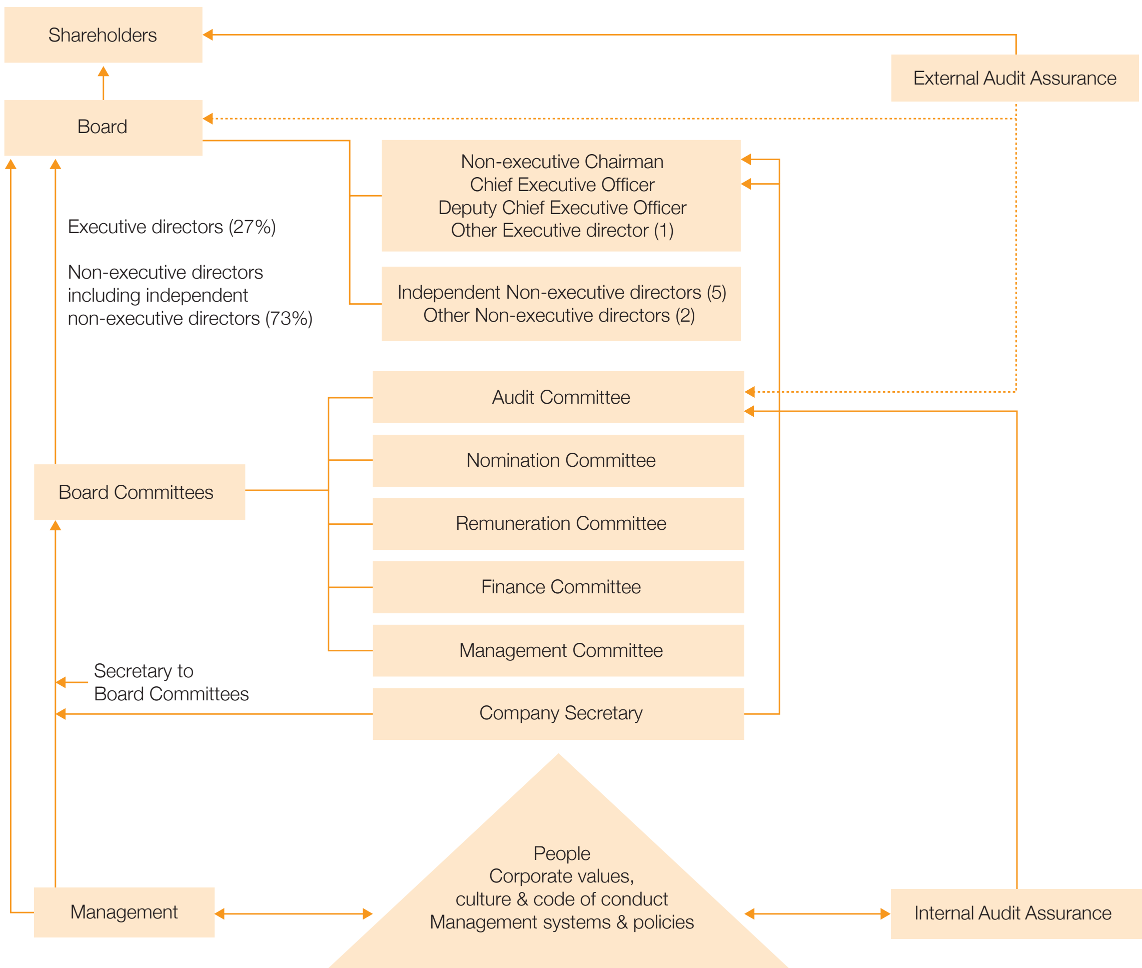
DCH is committed to maintaining high standards of corporate governance. The board of directors (the "Board") believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. We attach importance to our staff, our code of conduct, and our corporate policies and standards, which together form the basis of our governance practices. We respect and are committed to comply with the laws, rules and regulations of each country and area in which we operate, we strive to ensure a healthy and safe working environment for our staff, which is our paramount concern. We endeavour to contribute to the sustainable development of DCH, with particular focus on our accountability to shareholders and stakeholders. This report describes how DCH has applied its corporate governance practices to its everyday activities.

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

Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments.

CORPORATE GOVERNANCE STRUCTURE

The following chart depicts the corporate governance structure of DCH as at the date of this report.



BOARD OF DIRECTORS

Overall Accountability

The members of the Board are individually and collectively accountable to the shareholders for the success and sustainable development of DCH. The Board provides direction and approval in relation to matters concerning DCH's business strategies, policies and plans whilst the day-to-day business operations are delegated to the executive management and management committee. The Board is accountable to the shareholders and in discharging its corporate accountability, directors of DCH are required to pursue excellence in the interests of the shareholders and fulfill their fiduciary duties by applying the required levels of skill, care and diligence to a standard in accordance with the statutory requirements.

During the year, the Board has performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his or her responsibilities. The Board is of the view that all directors have given sufficient time and attention to the Group's affairs and the Board operates effectively as a whole.

Board Composition and Changes

DCH announced the following changes in board composition:

1. On 18 March 2016, Mrs Chan Hui Dor Lam, Doreen was appointed as an independent non-executive director ("INED"), a member of both audit committee and nomination committee of DCH;

2. On 10 May 2016, Mr Wai King Fai, Francis retired as an executive director ("ED"), having ceased to be the chief financial officer of DCH on 1 April 2016 and a member of finance committee on 1 June 2016;

3. On 1 June 2016, Mr Lai Ni Hium was appointed as ED and deputy chief executive officer and became a member of finance committee of DCH;

4. On 1 July 2016, Mr Cheung Kin Piu, Valiant resigned as an INED of DCH and ceased to be the chairman of audit committee, a member of both nomination committee and remuneration committee. Mr Woo Chin Wan, Raymond was appointed as INED of DCH, chairman of audit committee, a member of both nomination committee and remuneration committee of DCH with effect from 1 July 2016. Mrs. Chan Hui Dor Lam, Doreen was appointed as a member of remuneration committee of DCH on 1 July 2016;

5. On 1 January 2017, Mr Glenn Robert Sturrock Smith retired as ED of DCH and ceased to be a member of finance committee of DCH; and

6. On 1 March 2017, Mr Yip Moon Tong would retire as ED and chief executive officer and cease to be a member of finance committee of DCH, and Mr Lai Ni Hium would be appointed as the chief executive officer of DCH. Mr Lee Tak Wah would be appointed as ED of DCH, and a member of finance committee. Ms. Fung Kit Yi, Kitty would be appointed as ED of DCH and was already a member of finance committee.

As at the date of this report, the Board comprises 3 EDs, 3 non-executive directors ("NED") and 5 INEDs. NEDs (including INEDs) comprise 73% (as of the date of this report) and 67% (as from 1 March 2017) of the Board, of which INEDs satisfy the requirement of representing at least one-third of the Board. DCH believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirement of DCH's business.

With the board changes to take effect on 1 March 2017, the Board would comprise 4 EDs, 3 NEDs and 5 INEDs.

In relation to the 3 NEDs who are not independent (as considered by the Stock Exchange), Mr Zhang Jijing is the chairman and the president of CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of DCH); Mr Kwok Man Leung is the executive vice president and a director of CITIC Pacific and Mr Fei Yiping is a director and the chief financial officer of CITIC Pacific.

As required under Rule 3.10 of the Listing Rules, at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise. DCH has received from each INED a confirmation of his or her independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all INEDs are independent.

Mr Hsu Hsung, Adolf ("Mr Hsu") and Professor Yeung Yue Man ("Professor Yeung"), both being INEDs, have served DCH for more than nine years, and will retire and being eligible, have offered themselves for re-election at the forthcoming annual general meeting of the Company (the "2017 AGM"). The nomination committee considered that their long service will not affect their exercise of independent judgment and was satisfied that each of them has the required character, integrity and experience to continue fulfilling the role of an INED. Taking into consideration the above and the confirmations on the independence guidelines made by Mr Hsu and Professor Yeung, the Board is of the view that both Mr Hsu and Professor Yeung remain independent notwithstanding the length of their service and should be re-elected at the 2017 AGM. In accordance with the CG Code, the re-election of Mr Hsu and Professor Yeung will be subject to separate resolutions to be approved at the 2017 AGM.

Brief biographical particulars of the directors are set out on "Directors and Senior Management" of the annual report.

All directors, including the NEDs, have a specific term of appointment which is not more than three years since his / her re-election by shareholders at the general meeting. Each director has entered into an appointment letter with DCH and pursuant to Article 104(A) of DCH's Articles of Association, every director, including the NEDs, shall be subject to retirement by rotation at least once every three years. Retiring directors are eligible for re-election at the annual general meeting at which they retire. Separate resolutions are proposed for the election of each director. One-third of the directors, or if their number is not three or a multiple of three, then the number nearest to one-third, must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

Board Responsibilities and Delegation

The Board collectively determines the overall strategies of DCH, monitors performance and the related risks and controls in pursuit of the strategic objectives of DCH. Day-to-day management of DCH is delegated to the ED or officer in charge of each business unit and function who reports back to the Board. Every director ensures that he / she gives sufficient time and attention to the affairs of DCH. All Board members have separate and independent access to the management, and are provided with full and timely information about the conduct of the business and development of DCH, including reports and recommendations on significant matters. All Board members are provided with monthly management updates of the business operations of DCH. Should separate independent professional advice be considered necessary by the directors, it would be made available to the directors upon request.

The Board has delegated certain functions to the respective committees, the details of which are set out below. Matters specifically reserved for the Board include approval of financial statements, dividend policy, significant changes in accounting policies, material contracts, selection of directors, changes to appointments such as company secretary and external auditor, remuneration policy for directors and senior management, terms of reference of Board committees, as well as major corporate policies such as the code of conduct and whistle blowing policy.

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

DCH has arranged Directors & Officers Liability and Company Reimbursement Insurance for its directors and officers with a combined aggregate limit of liability of HK$500 million.

Details of the responsibilities, membership, attendance and activities during the year of each Board committee are set out under section headed "Board Committees" of this report.

Board Meetings and Attendance

The Board meets regularly to review financial and operating performance of DCH and to discuss future strategy. Four Board meetings and one special board meeting were held in 2016. At the Board meetings, the Board reviewed significant matters including DCH's annual and interim financial statements, annual budget, proposals for interim and final dividends, annual report and interim report. A special board meeting was held in April 2016 to approve the acquisition of Li & Fung's Asia consumer and healthcare distribution business in which detailed information of the transaction were presented to the Board. Details of the aforesaid acquisition are set out in the DCH's announcement dated 3 May 2016.

A schedule of Board meetings dates is fixed for each year in advance. At least 14 days' formal notice of all regular Board meetings is given to all directors and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and Board papers for each meeting are sent to all directors at least 3 days in advance of every regular Board meeting. Throughout the year, directors also participated in the consideration and approval of routine and operational matters of DCH by way of written resolutions with supporting background and explanatory materials as and when required. All minutes of the Board meetings are kept at the company secretary's office. The minutes are available to all directors for inspection.

In addition to the Board meetings, the Chairman held a private meeting with the NEDs (including the INEDs) without the presence of EDs. The NEDs (including the INEDs) freely provide their independent view to the Chairman during the meeting.

The attendance record of each director at Board meetings and the annual general meeting of DCH held on 9 May 2016 ("2016 AGM") is set out below:

Name of Directors	Attendance/ Number of Meetings Board Meeting	2016 AGM
Non-executive Chairman		
Mr Zhang Jijing	5/5	1/1
Executive Directors		
Mr Yip Moon Tong *(Chief Executive Officer)*	5/5	1/1
Mr Lai Ni Hium *(Deputy Chief Executive Officer) (appointed on 1 June 2016)*	2/2	N/A
Mr Lau Sei Keung	5/5	1/1
Mr Glenn Robert Sturrock Smith	5/5	1/1
Mr Wai King Fai, Francis *(Chief Financial Officer) (retired on 10 May 2016)*	3/3	1/1
Non-executive Directors		
Mr Kwok Man Leung	5/5	1/1
Mr Fei Yiping	4/5	1/1
Independent Non-executive Directors		
Mr Hsu Hsung, Adolf	5/5	1/1
Professor Yeung Yue Man	5/5	1/1
Mr Chan Kay Cheung	5/5	1/1
Mrs Chan Hui Dor Lam, Doreen *(appointed on 18 March 2016)*	4/4	1/1
Mr Woo Chin Wan, Raymond *(appointed on 1 July 2016)*	2/2	N/A
Mr Cheung Kin Piu, Valiant *(resigned on 1 July 2016)*	3/3	1/1

The Company's external auditor also attended the 2016 AGM.

Chairman and Chief Executive Officer

During the year, Mr Zhang Jijing served as the non-executive Chairman with Mr Yip Moon Tong as the Chief Executive Officer and Mr Lai Ni Hium as the Deputy Chief Executive Officer of DCH. The non-executive Chairman and Chief Executive Officer have separate defined responsibilities whereby the non-executive Chairman is primarily responsible for leadership and effective functioning of the Board, ensuring key issues are promptly addressed by the Board as well as providing strategic direction for DCH. The Chief Executive Officer, assisted by the Deputy Chief Executive Officer, is responsible for the day-to-day management of DCH's business and the effective implementation of corporate strategy and policies. The respective roles and responsibilities of the non-executive Chairman and Chief Executive Officer are set out in writing, which have been approved and adopted by the Board.

Company Secretary

The appointment and removal of the company secretary is subject to Board approval. Whilst the company secretary reports to the Chairman and the Chief Executive Officer, all members of the Board have access to the advice and service of the company secretary. Ms Kam Yiu Sai, Florence was appointed as company secretary on 18 March 2016 in place of Ms Tso Mun Wai. Ms Florence Kam has confirmed that she has complied with the training requirements during the year ended 31 December 2016.

Directors' Continuous Professional Development ("CPD") Programme

DCH has a CPD Programme for directors with an aim to improve their general understanding of DCH's business, to refresh their knowledge and skills as well as to receive updates on developments in corporate governance practices. In addition, directors may also choose to attend external courses, conferences, seminars and luncheons organised by various local organisations.

In addition, every newly appointed director is provided with a package comprising the induction materials such as the duties and responsibilities of directors under the Listing Rules and the Companies Ordinance, guidelines for directors issued by the Companies Registry of Hong Kong, legal and other regulatory requirements and the governance policies of the Company. During the year, Mrs Chan Hui Dor Lam, Doreen, Mr Lai Ni Hium and Mr Woo Chin Wan, Raymond were appointed as directors. The Company has arranged briefings given by external legal counsel to the new directors.

Under DCH's CPD Programme, the Board visited the newly acquired manufacturing plant of producing pharmaceutical products, food and toiletries as a contractor and warehousing operations in Kuala Lumpur, Malaysia in November 2016. Directors also attended briefings from business units on the performance of business segments on a quarterly basis. They also received monthly business updates provided by management. Reading materials were provided to directors on the latest developments or updates in corporate governance practices and relevant legal and regulatory developments. Directors also attended self-directed courses and seminars. A record of the directors' participation in the CPD Programme is kept with the company secretary.

A summary of directors' participation in DCH's CPD Programme for the period from 1 January 2016 to 31 December 2016 is as follows:

Name of Directors	Type of CPD Programme (Keys)
Non-executive Chairman	
Mr Zhang Jijing	A, B, C, E
Executive Directors	
Mr Yip Moon Tong *(Chief Executive Officer)*	A, B, C, E
Mr Lai Ni Hium *(Deputy Chief Executive Officer) (appointed on 1 June 2016)*	A, B, C, D, E
Mr Lau Sei Keung	A, B, C, E
Mr Glenn Robert Sturrock Smith	A, B, C, E
Non-executive Directors	
Mr Kwok Man Leung	A, B, C, E
Mr Fei Yiping	A, B, C, E
Independent Non-executive Directors	
Mr Hsu Hsung, Adolf	A, B, C, D, E
Professor Yeung Yue Man	A, B, C, D, E, F
Mr Chan Kay Cheung	A, B, C, D, E
Mrs Chan Hui Dor Lam, Doreen *(appointed on 18 March 2016)*	A, B, C, D, E
Mr Woo Chin Wan, Raymond *(appointed on 1 July 2016)*	A, B, C, E

Keys:

A. Briefings from business units
B. Board visits
C. Monthly regular information updates
D. Seminars
E. Governmental and professional organisations briefings
F. Giving speech

Mr Wai King Fai, Francis, retired as ED on 10 May 2016 and Mr Cheung Kin Piu, Valiant resigned as INED on 1 July 2016. Reading materials, regulatory updates and management monthly updates were provided to the above directors during the period of their appointment.

The Board is of the view that the CPD events during the year satisfied the defined scope of CPD programme of DCH and that DCH was compliant with code provision A.6.5 of the CG Code.

BOARD COMMITTEES

The Board has established a number of committees to discharge the Board functions. Sufficient resources are provided to enable the Board committees to undertake their specific roles. The respective role, responsibilities and activities of each Board committee are set out below:

Audit Committee

The audit committee acts on behalf of the Board in providing oversight of DCH's financial reporting, annual audit and interim review, risk management, internal control as well as corporate governance. It currently consists of 5 INEDs who possess the relevant business and financial management experience and skills. It is chaired by Mr Woo Chin Wan, Raymond (appointed on 1 July 2016), with Mr Hsu Hsung, Adolf, Professor Yeung Yue Man, Mr Chan Kay Cheung and Mrs Chan Hui Dor Lam, Doreen (appointed on 18 March 2016) as members. Mr Cheung Kin Piu, Valiant ceased to be the chairman and member of the audit committee on 1 July 2016. Mr Woo Chin Wan, Raymond has relevant professional qualifications and expertise in financial reporting matters.

During the year, the audit committee met three times with DCH's Chief Financial Officer, with the external and internal auditors attending the meetings, taking part in the discussions and answering questions from the committee members. By invitation of the audit committee, other directors and senior executives may also attend the meetings. The audit committee chairman and other committee members also meet in separate private sessions with the external auditor without the presence of management.

Duties of the Audit Committee

The authority, role and responsibilities of the audit committee are set out in written terms of reference. The committee reviews its terms of reference at least once a year to ensure they remain in line with the requirements of the CG Code. The full terms of reference are available on DCH's website and the Stock Exchange's website.

Under its terms of reference, the audit committee shall:

- review and monitor the integrity of financial information of DCH and provide oversight of the financial reporting system;
- monitor the effectiveness of external audit and oversee the appointment, remuneration and terms of engagement of DCH's external auditor as well as their independence;
- oversee risk management and internal control systems, including the resources for the Group's internal audit function, staff qualifications and experience, as well as arrangements for concerns raised by staff on financial reporting, internal control and other matters ("whistle blowing"); and
- undertake corporate governance functions delegated from the Board, including,
  - (a) the development and review of the Group's policies and practices on corporate governance and making of recommendations to the Board;
  - (b) the review and monitoring of:
    - (i) the training and continuous professional development of directors and senior management;
    - (ii) the Group's policies and practices on compliance with legal and regulatory requirements;
    - (iii) the Group's code of conduct;
    - (iv) the Group's whistle blowing policy and system; and
  - (c) review of DCH's compliance with the CG Code and disclosure of the corporate governance in the Environmental, Social and Governance Report.

Committee Composition and Attendance

The composition of the audit committee during the year as well as the meeting attendance are as follows:

Membership and Attendance

Members	**Attendance/ Number of Meetings**
Independent Non-executive Directors	
Mr Woo Chin Wan, Raymond *(chairman) (appointed on 1 July 2016)*	2/2
Mr Hsu Hsung, Adolf	3/3
Professor Yeung Yue Man	3/3
Mr Chan Kay Cheung	3/3
Mrs Chan Hui Dor Lam, Doreen *(appointed on 18 March 2016)*	2/2
Mr Cheung Kin Piu, Valiant *(ceased to be chairman and a member on 1 July 2016)*	1/1
Other Attendees	
Chief Financial Officer	
Ms Fung Kit Yi, Kitty *(appointed on 1 April 2016)*	2/2
Mr Wai King Fai, Francis *(appointment ceased on 1 April 2016)*	1/1
Internal Auditor	3/3
External Auditor	3/3

The company secretary acts as secretary of the committee. Sufficient resources are made available to the committee when required. An agenda and accompanying committee papers are sent to the committee members at least 3 days prior to each meeting. The company secretary prepares full minutes of the audit committee meetings with details of the matters considered by the committee members. The draft minutes are sent to all committee members for comment after each meeting and the final version of the minutes is sent to the committee members for their records within a reasonable time after the meeting.

The chairman of the committee summarises the activities of the committee and issues arising and reports to the Board after each audit committee meeting.

Work Done in 2016

During 2016, the work done by the audit committee includes:

- reviewed the interim and annual financial statements, particularly judgemental areas, before submission to the Board;
- reviewed the checklists for compliance with statutory and Listing Rules requirements for ensuring the integrity of the financial statements;
- reviewed external auditor's reports to the audit committee on their statutory audit of 2015 annual financial statement and their independent review of the 2016 interim financial statement and the audit plan by external auditor;
- reviewed the overall audit work progress in each committee meeting, reviewed reports from internal audit on findings, recommendations, management response and progress in rectification of internal control;
- approved internal audit's annual audit plan for 2017;
- reviewed the staffing and resources of internal audit;
- reviewed the terms of reference of the audit committee;
- reviewed and approved the amendment to risk management policy to clarify the second line of defence and to rate the risk appetites as relatively moderate and recommended the revised risk management policy for the approval by the Board;
- reviewed the adequacy and effectiveness of DCH's internal controls, including financial, operational and compliance controls and risk management and considered the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, training programmes and budget; and
- reviewed the compliance of DCH with the CG Code and disclosures of corporate governance in the Environment, Social and Governance Report.

In the audit committee meeting of February 2017, the audit committee reviewed and approved DCH's annual financial statements and annual report for the year ended 31 December 2016, and considered reports from the external and internal auditors. The audit committee recommended that the Board approves the 2016 annual report.

Nomination Committee

The nomination committee was established by the Board with written terms of reference in compliance with the CG Code. The full terms of reference are available on DCH's website and the Stock Exchange's website.

The nomination committee reports directly to the Board and its primary functions are:

- to determine the policy for the nomination of directors and set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship, which shall take into consideration the principle of diversity;
- to review the structure, size, composition and diversity of the Board at least annually and make recommendations on any proposed changes to the Board;
- to assess the independence of independent non-executive directors;
- to make recommendations to the Board on the appointment or re-appointment of directors; and
- to review the board diversity policy and makes recommendations on any required changes to the Board.

The board diversity policy sets out the approach to achieve diversity on the Board which includes and makes good use of the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective function of the Board as a whole. DCH believes that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The nomination committee discusses and agrees annually the relevant measurable objectives that the Board has set for implementing this policy and makes recommendations to the Board for adoption. It also monitors the implementation of this policy and reports to the Board on the achievement of the measurable objectives for achieving diversity under this policy.

The nomination committee comprises 2 NEDs and 5 INEDs. The committee is chaired by Mr Zhang Jijing, the non-executive Chairman of the Board, with Mr Kwok Man Leung, Mr Hsu Hsung, Adolf, Professor Yeung Yue Man, Mr Chan Kay Cheung, Mrs Chan Hui Dor Lam, Doreen (appointed on 18 March 2016) and Mr Woo Chin Wan, Raymond (appointed on 1 July 2016) as members. Mr Cheung Kin Piu, Valiant ceased to be a member on 1 July 2016. The nomination committee meets at least annually and at such other times as it shall require. The General Manager – Group Human Resources & Administration Department ("GHRA") of DCH acts as secretary of the committee. The committee is provided with sufficient resources enabling it to perform its duties and it can seek independent professional advice at DCH's expenses if necessary.

During the year, one nomination committee meeting was held and four sets of written resolutions were passed by all the committee members. The committee secretary prepared full minutes of the nomination committee meetings and the draft minutes were sent to all committee members within a reasonable time after the meeting.

Committee Composition and Attendance

The composition of the nomination committee as well as the meeting attendance during the year are as follows:

Membership and Attendance

Members	**Attendance/ Number of Meeting**
Non-executive Directors	
Mr Zhang Jijing *(chairman)*	1/1
Mr Kwok Man Leung	1/1
Independent Non-executive Directors	
Mr Hsu Hsung, Adolf	1/1
Professor Yeung Yue Man	1/1
Mr Chan Kay Cheung	1/1
Mrs Chan Hui Dor Lam, Doreen *(appointed on 18 March 2016)*	1/1
Mr Woo Chin Wan, Raymond *(appointed on 1 July 2016)*	1/1
Mr Cheung Kin Piu, Valiant *(ceased to be a member on 1 July 2016)*	N/A

Work Done in 2016

The nomination committee (1) reviewed the structure, size, composition and diversity of the Board; (2) reviewed the board diversity policy and discussed certain measurable objectives; (3) reviewed the terms of reference of the nomination committee; (4) recommended to the Board the appointment of two INEDs and one ED and Chief Executive Officer; (5) made recommendation to the Board on the re-election of the retiring directors at the forthcoming 2017 AGM, and (6) endorsed the continued independence of Mr Hsu Hsung, Adolf and Professor Yeung Yue Man, notwithstanding that both of them had been serving as INEDs for more than 9 years, and would stand for re-election as directors at the 2017 AGM.

Remuneration Committee

The principal role of the remuneration committee is to determine and review the remuneration packages of individual EDs and senior management, including salaries, bonuses, benefits in kind, share options and other plans. The remuneration committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives and considers salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, so as to align management incentives with shareholders' interests.

The committee currently comprises 5 INEDs and 1 NED. The committee is chaired by Mr Hsu Hsung, Adolf, an INED, with Professor Yeung Yue Man, Mr Chan Kay Cheung, Mrs Chan Hui Dor Lam, Doreen (appointed on 1 July 2016) and Mr Woo Chin Wan, Raymond (appointed on 1 July 2016) as members. Mr Cheung Kin Piu, Valiant ceased to be a member on 1 July 2016. The General Manager of GHRA of DCH serves as the secretary of the committee. The full terms of reference are available on DCH's website and the Stock Exchange's website.

During the year, the remuneration committee held one meeting and one set of written resolution was passed by all the committee members. The committee secretary prepared full minutes of the remuneration committee meetings and the draft minutes are sent to all committee members.

Committee Composition and Attendance

The composition of the remuneration committee during the year as well as the meeting attendance are as follows:

Membership and Attendance

Members	Attendance/ Number of Meeting
Independent Non-executive Directors	
Mr Hsu Hsung, Adolf *(chairman)*	1/1
Professor Yeung Yue Man	1/1
Mr Chan Kay Cheung	1/1
Mrs Chan Hui Dor Lam, Doreen *(appointed on 1 July 2016)*	1/1
Mr Woo Chin Wan, Raymond *(appointed on 1 July 2016)*	1/1
Mr Cheung Kin Piu, Valiant *(ceased to be a member on 1 July 2016)*	N/A
Non-executive Director	
Mr Kwok Man Leung	1/1

Work Done in 2016

The remuneration committee reviewed the remuneration policies and approved the salaries and bonuses of the EDs and senior management. The remuneration committee had also discussed the executive compensation for 2017. The remuneration committee also recommended the remuneration package of a newly appointed ED for Board approval.

Details of DCH's remuneration policies are set out on page 36 under the heading "Remuneration" in this Environmental, Social and Governance Report. Details of directors' emoluments and retirement benefits are disclosed in notes 9 and 28 to the financial statements respectively. Remuneration payable to members of senior management by band are disclosed in note 10 to the financial statements. Details of the share option scheme and the movement of the share options during the year 2016 are disclosed under the section headed "Share Option Scheme" of the Report of the Directors.

Finance Committee

The finance committee is delegated the powers of the Board to establish or renew financial and credit facilities and undertake financial and credit transactions.

As at the date of this report, the finance committee comprises 3 EDs and the Chief Financial Officer, Ms Fung Kit Yi, Kitty. Work done by the finance committee in 2016 primarily related to approving new banking facilities, renewal of banking facilities, undertakings, provision of guarantees and other commitments with financial impact to the Group and change in bank signatories.

Management Committee

The management committee was established by the Board and as at the date of this report, the management committee comprises 3 EDs including Chief Executive Officer and Chief Financial Officer, together with Chief Corporate Officer and certain senior corporate directors appointed by the Chief Executive Officer. The full terms of reference were adopted on 20 August 2015. The major functions of management committee are:

- to oversee and review the overall performance of the Group and major business units;
- to review and approve new projects and capital expenditures;
- to review and make recommendation for the Board to approve the annual budget and 3 year plan of DCH;
- to review and approve DCH's day-to-day operational corporate policies;
- to monitor compliance of DCH's policies and practices on corporate governance and DCH's policies on legal and regulatory requirements and report to the audit committee; and
- to review and recommend to the Board strategic planning of the Group for new business and new direction.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board recognises the importance of integrity of financial information and acknowledges its responsibility for preparing financial statements that give a true and fair view of the financial position of the Group and of its financial performance and cash flows in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and the applicable disclosure provisions of the Listing Rules. The Board endeavours to present to shareholders a balanced and understandable assessment of the Group's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purpose are prudent and reasonable.

The adoption of relevant revised HKFRSs that became effective during the year has no significant impact on the Group's results of operation and financial position as disclosed in note 1(b) to the financial statements.

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2016 are set out in the Independent Auditor's Report on pages 80-88.

External Auditors and their Remuneration

The external auditors perform independent review or audit of the financial statements prepared by the management. KPMG has been engaged as DCH's external auditor for over 30 years. To promote the external auditor's independence, the audit engagement partner responsible for the audit of DCH is changed every seven years. The current audit partner was first appointed to audit the 2015 financial statements.

For the year ended 31 December 2016, the fees charged to the financial statements of the Group in respect of KPMG's statutory audit amounted to approximately HK$17.5 million. In addition, approximately HK$8.2 million was charged for other services, including interim review, special audit for business combination, tax services and audit of retirement plans. The fees of recurring audit services of subsidiaries performed by other auditors amounted to approximately HK$4.5 million and the fees of provision of other services were approximately HK$3.5 million.

Internal Controls and Risk Management

The Board is responsible for the Group's system of risk management and internal control and for ensuring that it functions effectively so as to provide reasonable assurance that the risk of failure to achieve DCH's business objectives is mitigated through three aspects set out below:

- effectiveness and efficiency of operations, including the achievement of performance and operating targets and the safeguarding of assets by management;
- reliability of financial and operating information provided by management, including management accounts and statutory financial reports; and
- compliance with applicable laws and regulations by each business unit.

DCH has put and continues to place considerable emphasis on maintaining and enhancing the effectiveness of its system of risk management and internal control. In 2015, the Board has approved the risk management policy and the risk appetite statement. Management has implemented and further enhanced the risk management framework throughout DCH Group and business units during the year. DCH's risk management framework comprises two key elements: risk governance structure and risk management reporting process.

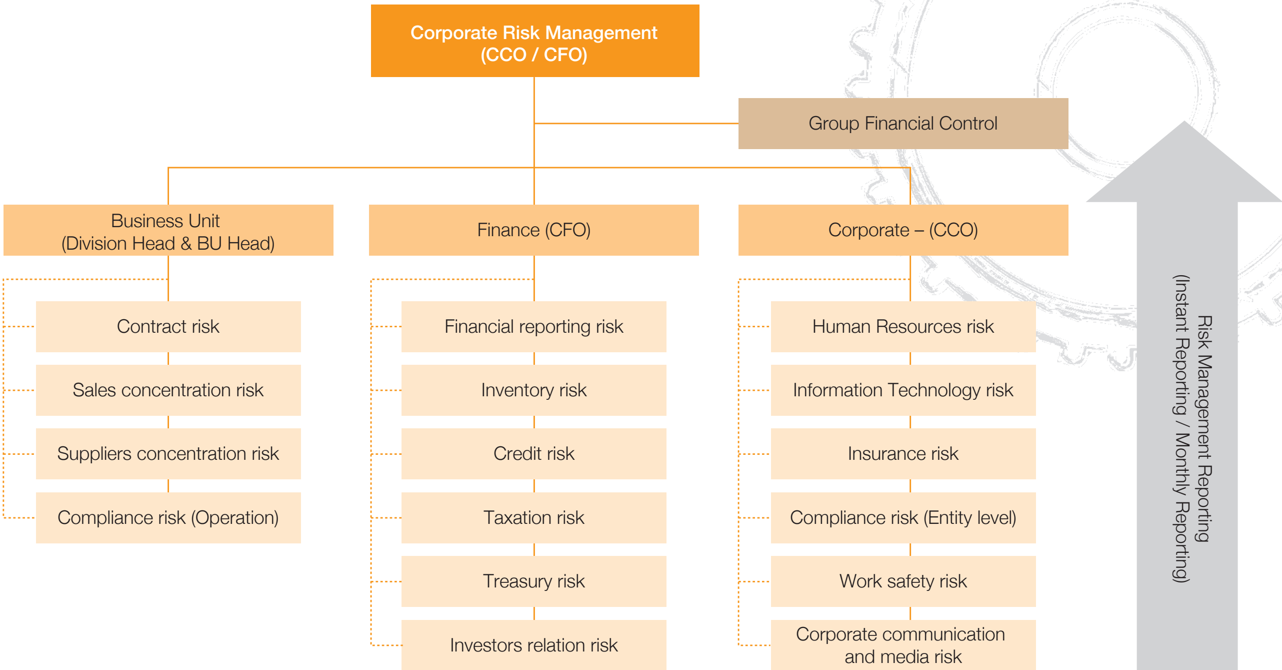
Risk Governance Structure

The Group's risk governance structure was set up based on the "three lines of defence" model. It is used to monitor the day-to-day risk environment and to set out roles and responsibilities of each level and the reporting mechanism. As the first line of defence, operational managers of business unit own and manage risks, responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. As the second line of defence, Division Heads and Group Financial Control provide oversight of the risk management activities under the first line of defence. Internal auditors, as the third line of defence, provide independent and objective assurance on the overall effectiveness of the risk management framework.

Risk Management Reporting Process

By reference to the framework of DCH Group, business units have established their own risk management guidelines. Management will fine-tune the risk tolerance level to suit respective business portfolios. To tighten risk management at division levels, the risk tolerance level of business unit division is lower than the overall tolerance level at the Group level.

The corporate risk management reporting structure is illustrated as follows:



DCH's risk management process is embedded in the day-to-day operations, financial activities, compliance, strategy development, business planning and investment decision. Under DCH's risk and control framework, risk management and internal control are primarily the collective responsibility of every manager and employee. For consistent compliance by everyone at DCH, the following key control policies and measures are implemented in everyday activities and are summarised below:

Instant Reporting Mechanism

When business unit is aware that the financial impact of any event exceeds the specified tolerance level, business unit should report the risk instantly (including remedial action, responsible person and target completion date) to the next higher level management according to the risk measurement and tolerance level controls. The instant risk report will also be submitted to Group Financial Control for its record and overall monitoring.

Monthly Reporting Mechanism

Business unit division has also established Monthly Reporting Mechanism to manage and control risks. Each BU is required to submit a risk summary (including remedial action, responsible person and target completion date) to the next higher level management and Group Financial Control on a monthly basis. The monthly risk summary includes all risks and financial impact for particular events which specified tolerance limits are lower than those stipulated under the Instant Reporting Mechanism.

The following control measures and activities are included for consideration in the monthly report:

- Code of conduct governing staff conduct within the Group, and whistle blowing policy on ethics and potential fraudulent issues.
- Risk factors, including but not limited to financial and non-financial risks, operational risks, and insurable risks, etc.
- Daily control activities, including but not limited to budgeting, re-forecasting, routine and exception reporting, and other control measures such as policies and procedures, proper delegation of approval authorities, segregation of duties, etc.
- Overall monitoring of compliance with the Listing Rules by company secretary and periodic independent reviews of internal controls and risk management by internal audit.

The audit committee has reviewed the adequacy and effectiveness of DCH's internal controls, including financial, operational and compliance controls and risk management. It has also considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions as well as their training programme and budget.

In conducting these reviews, the following reports and activities were considered:

- Self-assessments were performed by management of various business units and subsidiaries of their material controls and risk management activities undertaken with reference to the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management framework. Supporting documentation for the self-assessments was submitted for review by internal audit. The results of the self-assessments were consolidated and reviewed by the audit committee.

- Reports of internal audit were undertaken in accordance with the annual internal audit plan as approved by the audit committee. The audit committee reviewed the audit findings, recommendations, management's response and remedial actions at each committee meeting and reported the review results, where appropriate, to the Board.

- Self-assessments were carried out by business units and Group Finance of DCH with regard to resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programmes. The main conclusions were as follows:
  - the resources in the accounting and finance functions are adequate;
  - the qualifications and experience of the staff of the accounting and finance functions are satisfactory overall; and
  - the training activities and budgets are adequately provided during the year and are satisfactory.

The Board and management will continue to look into opportunities for further enhancing the effectiveness of the internal control system of DCH in the years ahead.

Internal Audit

The Group regards internal audit as an important part of the Board and audit committee's oversight function. The principal objective of internal audit, which is set out in an internal audit charter, is to provide the Board and the management with useful information and recommendations on the adequacy and effectiveness of the risk management and internal control system of the Group. During the year, the Group has continued to engage the Internal Audit Department ("IAD") of CITIC Pacific to perform internal audits for the Group.

Authority and Accountability

Under the internal audit charter endorsed by the audit committee, the internal audit function is authorised by the Board to have access to all records, people and physical properties relevant to the performance of internal audit. The head of IAD has unrestricted access to the chairman of the audit committee and reports directly to the audit committee for direction and accountability. This reporting relationship enables IAD to provide an objective assurance to the effectiveness of the internal control system of the Group.

Duties

The duties of the IAD are described in the internal audit charter. It requires that (a) internal audits are conducted with proficiency, objectively and due professional care in compliance with the standards, guidelines, and the code of ethics of the Institute of Internal Auditors; (b) audit testing and reviews are carried out at all levels of the Group to provide reasonable assurance as to whether the system of internal control is adequate; the assets of the Group are properly safeguarded; the operations are conducted effectively and efficiently in accordance with the Group's policies and procedures as well as relevant laws and regulations; and the accounting records of the audited entities and operations are reliable and (c) special reviews are conducted by IAD when required by the management, the audit committee or the Board.

Internal Audit Resources and Major Work Done in 2016

The internal audit function comprised 24 audit staff members at 31 December 2016 who are based in Hong Kong, Shanghai and Guangzhou to provide audit services to various business units and functions of the Group.

During the year, IAD prepared and submitted the annual internal audit plan to the audit committee for approval, according to a risk-based audit planning methodology. Pursuant to the approved annual plan, detailed audit planning for each audit was conducted, followed by field visits and discussions with management. Reports to the management were prepared after completion of the audit work, and were summarised for review at each audit committee meeting. Continual follow-up work was undertaken by internal audit to establish the extent of completion of remedial actions taken by the management, with follow-up results, audit progress and available resources reviewed by the audit committee at each committee meeting.

In 2016, IAD issued internal audit reports to the management covering various operational and functional units of the Group, including motor and motor related business, food and consumer products business and head office functions. Other tasks performed by IAD during the year include:

- Carried out ongoing assessments of information technology controls pursuant to the annual audit plan.
- Reviewed the 2016 internal control self-assessment exercises for major business units conducted by the management of the Group, regarding internal controls and risk management activities, as well as adequacy, qualification, experience and training programmes of the accounting and financial reporting functions of the Group.
- Implemented continuous training and development programmes, including quarterly sharing sessions and periodic training workshops, for all internal audit staff of IAD to enhance their audit skill sets and knowledge.
- Benchmarked the internal audit charter against the latest version of the International Professional Practices Framework issued by the Institute of Internal Auditors to ensure that the internal audit function remains in line with internationally recognised internal audit practices.

BUSINESS ETHICS

Code of Conduct

At DCH, we consider ethical corporate culture and employees' honesty and integrity to be important assets. We endeavour to comply with the laws and regulations of the countries and regions in which we operate, and all directors and employees are required to act responsibly to ensure that the reputation of DCH is not tarnished. To uphold a high standard of integrity in all aspects of our daily business activities, DCH has adopted a code of conduct which provides employees with a set of defined ethical standards for adherence. The code of conduct is posted on DCH's intranet for reference by all staff. All employees are required to strictly comply with all applicable laws and regulations and to ensure that the interest of the Company is not compromised. New employees are briefed on the rules and standards set out in the code of conduct upon joining DCH, and are required to acknowledge their understanding of the code of conduct. The heads of business units are charged with the responsibility of disseminating the code of conduct requirements to the staff concerned, and are required to report the compliance status of the code of conduct on a bi-annual basis to the General Manager of GHRA. The audit committee receives reports on the execution of the code of conduct and its compliance at least once a year and, where necessary, recommendations will be made to the Board and management for implementation.

The code of conduct will be reviewed annually and updated as necessary to ensure appropriateness and compliance with the law. All employees are made aware of the code of conduct and are also required to acknowledge understanding of and compliance with this code of conduct. On an annual basis, all employees are also required to make formal declaration to the Company to confirm that they have complied with the code of conduct. Through communication of whistle policy in the code of conduct, employees are encouraged to report suspected fraud, corruption and misconduct within the Company.

Whistle Blowing Policy

DCH considers the whistle blowing channels as useful means of identifying possible misconduct or fraud risks of a particular operation or function by encouraging employees to raise concerns in good faith. DCH has established a whistle blowing policy setting out principles and procedures for guiding the directors and employees of the Group in reporting cases of fraud, corruption or misconduct in a fair and proper manner.

According to the whistle blowing policy, concerns can be raised to the Chief Corporate Officer who will solicit representatives from appropriate divisions to form a handling team to study and investigate the concerns. If the concerns are serious or related to senior staff, a review committee which consists of Chief Corporate Officer, Chief Financial Officer and Chief Executive Officer will be set up to handle the case. Those who have conflict of interest will not be included in the investigations. 8 whistle blowing instances were reported during the year. All cases were considered and investigations were made. Remedial actions were taken where appropriate. DCH strives to act responsively on any reported misconduct, malpractices or irregularities.

Inside Information/Price Sensitive Information Disclosure Policy

DCH has adopted an inside information / price sensitive information disclosure policy setting out the practices and procedures to (a) monitor of business and corporate developments and events so that any potential inside information / price sensitive information is promptly identified and relayed to the Board to enable it to make timely decisions on disclosure, if necessary; and (b) take appropriate measures to preserve confidentiality of inside information / price sensitive information until proper dissemination of the inside information / price sensitive information via the electronic publication system operated by the Stock Exchange.

Good Employment Practices

In Hong Kong, DCH has broadly followed the guide to good employment practices issued by the Employers' Federation of Hong Kong to ensure legally compliant, non-discriminatory and professional employment practices are implemented.

Directors' and Relevant Employees' Securities Transactions

DCH 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 confirmed that they have complied with the required standard set out in the Model Code throughout 2016. The interests held by individual directors in DCH's securities as at 31 December 2016 are set out in the section headed "Directors' Interests in Securities" in the Report of the Directors.

In addition to the requirements set out in DCH's code of conduct, the company secretary regularly writes to executive management and other relevant employees who are privy to unpublished inside information / price sensitive information, as reminders of their responsibilities to comply with the provisions of the Model Code and keep the matter confidential until announced. They are also specifically reminded not to engage in any insider dealings as stipulated under Section 270 of the Securities and Futures Ordinance.

COMMUNICATION WITH SHAREHOLDERS

DCH considers effective communication with shareholders essential to enable them to have a clear assessment of the enterprise performance as well as accountability of the Board. Major means of communication with shareholders of DCH are as follows:

Information Disclosure on Corporate Website

DCH endeavours to disclose all material information about the Group to all interested parties as widely and as timely as possible. DCH maintains a corporate website at http://www.dch.com.hk where important information about DCH's activities and corporate matters such as annual reports and interim reports to shareholders, announcements, business development and operations, corporate governance practices and other information is available for review by shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on DCH's website.

During 2016, DCH issued announcement(s) in respect of one major transaction, one discloseable transaction and certain changes in the composition of the board and board committees, which can be reviewed on DCH's website.

General Meetings with Shareholders

DCH's annual general meeting provides a useful platform for direct communication between the Board and shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

Voting by Poll

Resolutions put to vote at the general meetings of DCH (other than on procedure matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and DCH respectively on the same day as the poll.

Investor Relations

DCH 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 addition, questions received from the general public and individual shareholders are answered promptly. In all cases, great care is taken to ensure that no price sensitive information is disclosed selectively. When announcements are made through the Stock Exchange, the same information will be made available on DCH's website.

Shareholder Rights

Set out below is a summary of certain rights of the shareholders of DCH as required to be disclosed pursuant to the mandatory disclosure requirements under the CG Code:

(a) Convening of general meeting

Shareholder(s) representing at least 5% of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting pursuant to Section 566 of the Companies Ordinance.

The request –

(a) must state the general nature of the business to be dealt with at the meeting;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(c) may consist of several documents in like form;

(d) may be sent in hard copy form or in electronic form to the company secretary at DCH's registered office or via email at ir@ir.dch.com.hk; and

(e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance, directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting pursuant to Section 568 of the Companies Ordinance, but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a general meeting.

(b) Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board of DCH in writing through the Investor Relations Department whose contact details are as follows:

Investor Relations Department
Dah Chong Hong Holdings Limited
8th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong
Email: ir@ir.dch.com.hk
Tel. No.: +852 2768 3110
Fax No.: +852 2758 1117

The Investor Relations Department shall forward the shareholders' enquiries and concerns to the Board and / or relevant Board committees of DCH, where appropriate, for them to answer the shareholders' questions.

(c) Procedures for shareholders to put forward proposals at an Annual General Meeting ("AGM")

- Circulating a resolution for an AGM

  Shareholder(s) can make a request to circulate a resolution for an AGM pursuant to Section 615 of the Companies Ordinance if they–

  (a) represent at least 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or

  (b) number at least 50 and who have a right to vote on the resolution at the AGM to which the request relates.

  The request–

  (a) may be sent in hard copy form or in electronic form to the company secretary at DCH's registered office or via email at ir@ir.dch.com.hk;

  (b) must identify the resolution of which notice is to be given;

  (c) must be authenticated by the person or persons making it; and

  (d) must be received by DCH not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

- Circulating a statement at an AGM or at a general meeting

  Shareholder(s) can pursuant to Section 580 of the Companies Ordinance request DCH to circulate to shareholders entitled to receive notice of a general meeting, a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting, if such shareholder(s)–

  (a) represent at least 2.5% of the total voting rights of all shareholders who have a relevant right to vote; or

  (b) number at least 50 and who have a relevant right to vote (as defined in section 580(4) of the Companies Ordinance).

  The request–

  (a) may be sent in hard copy form or in electronic form to the Company Secretary at DCH's registered office or via email at ir@ir.dch.com.hk;

  (b) must identify the statement to be circulated;

  (c) must be authenticated by the person or persons making it; and

  (d) must be received by DCH at least 7 days before the meeting to which it relates.

- Proposing a candidate for election as a Director

  Article 108 of DCH's Articles of Association provides that no person (other than a retiring director) shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting, unless a shareholder shall have given a notice in writing of the intention to propose that person for election as a director and a notice in writing by that person of his willingness to be elected shall have been given to DCH in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting, provided that such period shall be at least 7 days. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

There were no amendments made to the constitutional documents of DCH during 2016.

The latest version of the Articles of Association of DCH is available on the websites of DCH and the Stock Exchange.

NON-COMPETITION UNDERTAKING

CITIC Limited ("CITIC", a controlling shareholder of DCH) has executed a deed of non-competition dated 28 September 2007 in favour of DCH to the effect that at any time during which the shares of DCH are listed on the Stock Exchange and CITIC and / or its associates (as defined under the then Listing Rules) are regarded as a controlling shareholder of DCH under the Listing Rules, (i) CITIC will not engage and will procure its subsidiaries (excluding DCH and its subsidiaries) not to engage in the trading and distribution of motor vehicles, food commodities, fast moving consumer goods and consumer products and provision of logistics services as then engaged in by DCH and disclosed in the prospectus dated 4 October 2007, or in any other business that may compete, directly or indirectly, with such business ("Restricted Activity"), and (ii) in the event that any opportunity is made available to CITIC to invest in any independent third party's business engaging in the Restricted Activity, CITIC 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 has reviewed the business of its group (excluding DCH and its subsidiaries) and advised that during the year 2016, their business did not compete with the Restricted Activity and there was no opportunity made available to CITIC to invest in any independent third party which was engaged in the Restricted Activity. CITIC has given a written confirmation to DCH that it has fully complied with the terms of the non-competition undertaking. The independent non-executive directors of DCH have reviewed the confirmation and concluded that CITIC has complied with the terms of the non-competition undertaking.

Directors and Senior Management

NON-EXECUTIVE CHAIRMAN

Zhang Jijing

Aged 61, the Chairman and a Non-executive Director since January 2014. Mr Zhang also serves as the chairman of the Nomination Committee of DCH. Mr Zhang is the chairman and the president of CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of DCH), the chairman of CITIC Mining International Ltd and CITIC Pacific China Holdings Limited ("CITIC Pacific China"), and a director of CITIC Hong Kong (Holdings) Limited ("CITIC HK Holdings"). He was an executive director and a vice president of CITIC Group Corporation ("CITIC Group", the ultimate holding company of DCH), the head of the strategy and planning department of CITIC Group, an executive director of CITIC Limited ("CITIC", a controlling shareholder of DCH listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")), and a non-executive director of CITIC Securities Company Limited (listed on the Stock Exchange and the Shanghai Stock Exchange), China CITIC Bank Corporation Limited (listed on the Stock Exchange and the Shanghai Stock Exchange) and CITIC Resources Holdings Limited (listed on the Stock Exchange).

EXECUTIVE DIRECTORS

Yip Moon Tong *Chief Executive Officer (until 28 February 2017)*

Aged 64, an Executive Director since July 2007, is the Chief Executive Officer of DCH. He joined Dah Chong Hong, Limited ("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. Mr Yip has tendered his resignation as Executive Director with effect from 1 March 2017 and will cease to act as the Chief Executive Officer of DCH with effect from the same date.

Lai Ni Hium *Deputy Chief Executive Officer (up to 28 February 2017)/Chief Executive Officer (with effect from 1 March 2017)*

Aged 55, an Executive Director and Deputy Chief Executive Officer since June 2016. Mr Lai has been appointed as the Chief Executive Officer of DCH with effect from 1 March 2017. Mr Lai was the executive director, chief financial officer and company secretary of China Resources Beer (Holdings) Company Limited ("CRBH", a company listed on the Stock Exchange) until 31 May 2016. He remains a non-executive director of CRBH. Mr Lai was previously the executive director, non-executive director, chief financial officer and company secretary of China Resources Microelectronics Limited. Prior to that, he served as the chief financial officer of Eagle Brand Holdings Limited (now known as Nam Cheong Limited), which is a company listed on the Singapore Exchange and before then, he served as the executive director and chief executive officer of Logic International Holdings Limited (now known as China Resources Gas Group Limited). Mr Lai obtained a Bachelor of Commerce degree from the University of Western Australia and a graduate diploma in Business and Administration from the Curtin University of Technology of Western Australia. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia.

Lau Sei Keung

Aged 63, an Executive Director since July 2007. Mr Lau is the head of motor group and is responsible for overall leadership for all motor businesses including both commercial vehicles and passenger cars for Hong Kong, Macao, the People's Republic of China (the "PRC"), Taiwan and other developing territories. Mr Lau also champions the Isuzu distributorship business in the PRC, Hong Kong, Taiwan and Macao for the Group. 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.

NON-EXECUTIVE DIRECTORS

Kwok Man Leung

Aged 48, a Non-executive Director since July 2007. Mr Kwok is a Chartered Financial Analyst. He is the executive vice president and a director of CITIC Pacific. He is a director of CITIC Pacific China and Daye Special Steel Co., Ltd. (listed on the Shenzhen Stock Exchange), and also a director of certain member companies of CITIC involved in iron ore mining and property and of certain member companies of CITIC Pacific involved in special steel, energy, property and infrastructure businesses. He is in charge of the business development and human resources and administration of CITIC Pacific. He was an executive director of CITIC and a non-executive director of CITIC Telecom International Holdings Limited ("CITIC Telecom", listed on the Stock Exchange).

Fei Yiping

Aged 53, a Non-executive Director since January 2010. Mr Fei is a director and the chief financial officer of CITIC Pacific, a director of CITIC Pacific China, a director and the chief financial officer of CITIC HK Holdings, a non-executive director of CITIC Telecom, a director of Companhia de Telecomunicações de Macau, S.A.R.L., and also a director of certain member companies of CITIC involved in iron ore mining and property and of certain member companies of CITIC Pacific involved in special steel, property and energy. Mr Fei is a graduate from Beijing Science and Technology University and received a Master in Business Administration from the University of Edinburgh in the United Kingdom. He is a FCPA of CPA Australia and has over 21 years experience in accounting and financial management. He has been with CITIC Group 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

Hsu Hsung, Adolf

Aged 78, an Independent Non-executive Director since September 2007. Mr Hsu also serves as the chairman of the Remuneration Committee of DCH. Mr Hsu spent over 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 Ltd as the 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 Stock Exchange, and a non-executive director of New World Services Limited (now known as NWS Service Management Limited). Mr Hsu is a fellow member of the Hong Kong Institute of Directors (FHKIoD), a fellow member of the Chartered Institute of Logistics and Transport (FCILT) and an Honorary Fellow of Lingnan University.

Yeung Yue Man

Aged 78, an Independent Non-executive Director since September 2007. Professor Yeung is Emeritus Professor of Geography and Resources Management at The Chinese University of Hong Kong. Professor Yeung has also made contributions to Hong Kong policy affairs by being a member of a large number of bodies, such as the Town Planning Board, Hong Kong Housing Authority, Consultative Committee in the New Airport and Related Projects, Barrister Disciplinary Tribunal Panel, Kowloon-Canton Railways. He served as chairman of the Land and Building Advisory Committee and the Pan-Pearl River Delta Panel under the Central Policy Unit, and a member of the Commission on Strategic Development of The Government of the Hong Kong Special Administrative Region.

Directors and Senior Management (Continued)

Chan Kay Cheung

Aged 70, an Independent Non-executive Director since December 2012. Mr Chan is a senior adviser of The Bank of East Asia, Limited ("BEA"), the vice chairman of The Bank of East Asia (China) Limited and the chairman of Shaanxi Fuping BEA Rural Bank Corporation. He joined BEA in 1965 and was appointed as an executive director and deputy chief executive of BEA in 1996 and 1997 respectively. He retired from BEA in May 2007 after serving for over 41 years. Mr Chan possesses extensive knowledge and experience in the banking industry. Mr Chan is currently an independent non-executive director of China Electronics Corporation Holdings Company Limited, Chu Kong Shipping Enterprises (Group) Company Limited, Hong Kong Food Investment Holdings Limited and SOCAM Development Limited, all listed on the Stock Exchange. Mr Chan is a fellow member of The Hong Kong Institute of Bankers, a member of the Committee of Overseers of Lee Woo Sing College of The Chinese University of Hong Kong, a member of The China UnionPay International Advisory Group and an International Senior Economic Consultant of The People's Government of Shaanxi Province.

Chan Hui Dor Lam, Doreen

Aged 63, an Independent Non-executive Director since March 2016. Mrs Chan is a member and the treasurer of the council and the court of Hong Kong Baptist University and of the board of governors of Hong Kong Baptist University Foundation. She also serves on the board of Haven of Hope Christian Service and is an executive consultant of Word of Life Ministry of the China Graduate School of Theology. She was formerly a chairman of the board of the China Graduate School of Theology, Non-subvented Service Governing Committee of Haven of Hope. Mrs Chan was a director and chief executive officer of CITIC Bank International Limited (now known as China CITIC Bank International Limited) till 22 October 2012. She had also been a director of CITIC Group, non-executive director of China CITIC Bank Corporation Limited, director, managing director and alternate chief executive officer of CITIC International Financial Holdings Limited, chairman of HKCB Finance Limited, CITIC Insurance Brokers Limited and CITIC Bank International (China) Limited. Since 22 October 2012, she has not retained any role in CITIC Group or any of its subsidiaries. Mrs Chan has over 35 years of experience in the banking industry, of which over 10 years has been specializing in retail banking business.

Woo Chin Wan, Raymond

Aged 62, an Independent Non-executive Director since July 2016. Mr Woo also serves as the chairman of the Audit Committee of DCH. Mr Woo has been appointed as an independent non-executive director of Great Wall Pan Asia Holdings Limited (formerly known as Armada Holdings Limited, a company listed on the Stock Exchange) with effect from 5 November 2016. Mr Woo is a retired partner of Ernst & Young ("EY"). Before his retirement in June 2015, he had held various senior positions with EY in the Greater China area. He was a director and the general manager of Ernst & Young Hua Ming CPA, a member of EY's Greater China Leadership Team, and the managing partner of EY's Greater China Operations. He has more than 30 years of professional experience, specializing in audit, corporate restructuring, IPO, risk management, and mergers and acquisitions. Mr Woo is a Canadian Chartered Accountant, and a Hong Kong Certified Public Accountant.

SENIOR MANAGEMENT

Lo Kai Sing, Paul *(as Chief Corporate Officer up to 28 February 2017)*

Aged 61, is the Senior Corporate Director and Chief Corporate Officer of the Group. He is the executive-in-charge of a range of Group corporate functions including human resources, information technology, properties, communications, marketing and advertising. Mr Lo joined the Group in August 1997 and served as the General Manager of Group Human Resources and Communications of the Group until October 2000. He then joined CITIC Pacific (now CITIC) Group in 2005 and served as a director of Group Human Resources until he was transferred to the Group on 1 January 2013. Mr Lo has many years of experience in human resources management and corporate communications in a variety of industries. Mr Lo will retire as Chief Corporate Officer with effect from 1 March 2017.

Wu Ying Ha *(as Chief Corporate Officer with effect from 1 March 2017)*
Aged 53, will be appointed as the Corporate Director and Chief Corporate Officer of the Group following the retirement of Mr Lo Kai Sing, Paul with effect from 1 March 2017. He will be the executive-in-charge of a range of Group corporate functions including human resources, information technology, properties, communications, marketing and advertising, business re-engineering and legal & compliance. Prior to joining the Group, he was the vice president of CITIC Resources Holdings Limited (a fellow subsidiary of DCH listed on the Stock Exchange) and responsible for human resources and administrative management of CITIC Resources Group. In addition, he served as assistant general manager and general manager of Human Resources & Administration of CITIC United Asia Investments Limited and was the manager of General Manager Office and assistant general manager of International Tour Department of China Travel Service (Holdings) Hong Kong Limited. Mr Wu holds a Master's degree in Business Administration from Southeastern University, Washington, D.C. Mr Wu has over 21 years experience in corporate management, especially in human resources and administration.

Lee Tak Wah *(as Executive Director with effect from 1 March 2017)*
Aged 52, is a Senior Corporate Director of the Group and the Deputy Head of Motor Group. Mr Lee is responsible for overseeing the motor business operation and development. He is also in charge of the motor related business for the Group. Mr Lee joined the Group in June 1999. He obtained a Bachelor of Engineering (Mechanical Engineering) degree from the Hong Kong Polytechnic University and received a Master in Business Administration degree from the Chinese University of Hong Kong. Mr Lee is a member of The Hong Kong Institute of Engineers. He has more than 20 years experience in the motor industry. Mr Lee has been appointed as Executive Director of DCH with effect from 1 March 2017.

Fung Kit Yi, Kitty *(as Executive Director with effect from 1 March 2017)*
Aged 53, is Chief Financial Officer of the Group and is responsible for the finance and accounting, internal control, treasury and investor relationship of the Group. Ms Fung holds a Master of Business Administration and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and certified management accountant in the United States. She is also a chartered financial analyst of the CFA Institute. Prior to joining the Group, Ms Fung has over 25 years of hands-on and diversified working experience in renowned multinational corporations and well-known local organizations across consumer products/fast moving consumer goods, manufacturing, publishing, banking and retail industries in the United States, Greater China and Asia Pacific regions. Ms Fung has been appointed as Executive Director of DCH with effect from 1 March 2017.

Ho Ming Kei, Wayne
Aged 56, is a Corporate Director of Corporate Planning and Management of the Group and is primarily responsible for performing business monitoring, planning and development in support of the Group's business performance and development initiatives. He joined DCH in October 1995. Mr Ho has over 20 years of experience in corporate and business development operations.

Hui Kwong Lok
Aged 60, is a Corporate Director of the Group and the General Manager of Electrical Appliances Division 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.

Lee Kai Yeung
Aged 60, is a Corporate Director of the Group and he is in charge of food trading and food manufacturing and processing businesses in Hong Kong. Mr Lee joined the Group in October 1978 and has more than 30 years experience in food trading in Hong Kong.

Directors and Senior Management (Continued)

Leung Pui Ching, Betty

Aged 54, is a Corporate Director of the Group and the Head of the Group's Hong Kong Food business. This comprises food commodity trading, food manufacturing and processing, food retailing and food agency distribution. She is also Chief Executive of Sims Trading Company Limited ("Sims Trading"), a marketing and distribution business of agency food products in Hong Kong and Macao. She became part of CITIC Pacific (now CITIC) in 2001 and was transferred to the Group when Sims Trading became part of the Group in 2004. Ms Leung has over 30 years sales and marketing experience in sales, marketing, advertising and buying across different parts of the supply chain including manufacturing, distribution and retailing in the consumer product industry. Ms Leung is currently Chairlady of the Hong Kong Suppliers Association.

Li Chendi

Aged 44, a Corporate Director of the Group and the Director and General Manager of Dah Chong Hong Motors (China) Limited ("DCHM China"). Mr Li is primarily responsible for the sales and operation of all 4S shops across mainland China. He joined the Group in November 2009 and has more than 19 years experience in the China motor industry.

Lo Yuk Shun

Aged 53, is a Corporate Director of the Group and the General Manager of Ancillary Business Division and Parts Division. Mr Lo is primarily responsible for overseeing and developing the auto parts and accessories business and as well as the environmental projects in the motor business. He is also responsible for exploring other business development opportunities for Motor Group. Mr Lo joined the Group in May 1989 and has 30 years experience in the motor industry.

Ng Kim Fan, Rex

Aged 48, is a Corporate Director of the Group and the Director and General Manager of DCHM China. Mr Ng is primarily responsible for developing and managing all motor related businesses in the PRC. Mr Ng joined the Group in February 2015, and has over 24 years relevant experience in motor business of Hong Kong, Macau and the PRC.

Poon Lin Sing

Aged 50, is a Corporate Director and Head of Finance – Motor Group and is primarily responsible for all financial matters of motor and motor related business in the PRC, Hong Kong and Taiwan. He joined the Group in August 1996 and has over 20 years experience in finance and accounting profession.

Wong Ming Yin

Aged 55, is a Corporate Director of the Group and the Director and General Manager of DCHM China. Mr Wong is primarily responsible for the development and management of our city dealerships for motor vehicles in the PRC. Mr Wong joined the Group in July 1998 and has more than 25 years experience in the motor industry.

Zhou Jiajun

Aged 62, is a Corporate Director and National Head of China Food Brand Management of the Group and is primarily responsible for leading the integration of agent brand business and self-owned brand development of food business in the PRC and the overall management of food related business units based in China. He joined the Group in November 2008 and has over 20 years experience in promotion and marketing for high-end brands of food business.

The board (the "Board") of directors (the "Directors") of Dah Chong Hong Holdings Limited ("DCH") have pleasure in presenting to shareholders their report for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

DCH is incorporated and domiciled in Hong Kong and has its registered office in Hong Kong.

PRINCIPAL ACTIVITIES

DCH is an integrated trading and distribution company operating in Asia, supported by an extensive logistics network. DCH is a leading distributor and dealer of motor vehicles in Greater China as well as a provider of a full range of associated services. DCH's consumer business comprises the manufacture and distribution of food, healthcare, electrical appliances, beauty and lifestyle products.

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 40 to the financial statements.

BUSINESS REVIEW

A detailed review on business performance of DCH and its subsidiaries (together the "Group") for the year ended 31 December 2016, as well as the principal risks and uncertainties, and future prospects of the Group are set out in the sections headed "Chairman's Letter to Shareholders" (pages 3 to 5), "Business Review" (pages 6 to 18) and "Risk Management" (pages 28 to 31) of this 2016 Annual Report, the discussions thereof form part of this Report of the Directors.

DIVIDENDS

The Directors declared an interim dividend of 4.75 HK cents (2015: 6.10 HK cents) per share in respect of the year ended 31 December 2016 which was paid on 30 September 2016. The Directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company (the "AGM"), the payment of a final dividend of 3.69 HK cents (2015: 6.40 HK cents) per share in respect of the year ended 31 December 2016 payable on 21 June 2017 to shareholders on the register of members at the close of business on 31 May 2017.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$1.9 million (2015: HK$1.7 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate percentage of sales attributable to the Group's five largest customers was 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	
	2016	2015
The largest supplier	**9.7%**	10.7%
Five largest suppliers in aggregate	**33.7%**	35.8%

So far as the Directors are aware, at no time during the year have the Directors, their close associates or any shareholder of DCH (which to the knowledge of the Directors own more than 5% of DCH's share capital) had any interest in the above suppliers and customers.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2016 are set out in note 24 to the financial statements.

DIRECTORS

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

Executive Directors

Mr Yip Moon Tong (Note)	
Mr Lai Ni Hium	*(appointed with effect from 1 June 2016)*
Mr Lau Sei Keung	
Mr Glenn Robert Sturrock Smith	*(retired with effect from 1 January 2017)*
Mr Wai King Fai, Francis	*(retired with effect from 10 May 2016)*

Non-executive Directors

Mr Zhang Jijing
Mr Kwok Man Leung
Mr Fei Yiping

Independent non-executive Directors

Mr Cheung Kin Piu, Valiant	*(resigned with effect from 1 July 2016)*
Mr Hsu Hsung, Adolf	
Professor Yeung Yue Man	
Mr Chan Kay Cheung	
Mrs Chan Hui Dor Lam, Doreen	*(appointed with effect from 18 March 2016)*
Mr Woo Chin Wan, Raymond	*(appointed with effect from 1 July 2016)*

Note: Mr Yip Moon Tong would retire as an executive Director of DCH with effect from 1 March 2017.

Biographical details of the Directors are set out on pages 62 to 66 of the 2016 Annual Report.

In accordance with Article 95 of the Articles of Association of DCH, Mr Lai Ni Hium, Mr Woo Chin Wan, Raymond, Mr Lee Tak Wah and Ms Fung Kit Yi, Kitty will hold office until the AGM and being eligible, offer themselves for re-election. In addition, In accordance with Article 104(A) of the Articles of Association of DCH, Mr Zhang Jijing, Mr Hsu Hsung, Adolf and Professor Yeung Yue Man shall retire by rotation from the Board at the AGM and, all being eligible, offer themselves for re-election. Mr Hsu Hsung, Adolf and Professor Yeung Yue Man, both independent non-executive Directors since September 2007, have served DCH for more than nine years. Pursuant to the Corporate Governance Code of the Rules Governing the Listing of Securities (the"Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), their re-elections will be subject to separate resolutions to be approved at the AGM.

The list of directors who have served on the boards of the subsidiaries of DCH during the financial year ended 31 December 2016 and up to the date of this report is available on DCH's website at www.dch.com.hk under "About DCH" section.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

DCH entered into an administrative services agreement with CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of DCH) on 28 August 2014, pursuant to which DCH shared certain administrative services, namely, company secretarial services, internal audit services and tax compliance services with CITIC Pacific which took effect on 1 July 2014. The agreement shall continue thereafter in force from year to year but may be terminated by either party giving six months' prior notice in writing to the other party. The charges payable by DCH 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 DCH for the above services to CITIC Pacific for the year ended 31 December 2016 was HK$11.1 million (2015: HK$10.5 million).

CITIC Limited ("CITIC", a controlling shareholder of DCH) has executed a deed of non-competition dated 28 September 2007 in favour of DCH to the effect that at any time during which the shares of DCH are listed on the Stock Exchange and CITIC and/or its associates (as defined under the then Rules Governing the Listing of Securities on the Stock Exchange) are regarded as a controlling shareholder of DCH under the Listing Rules of the Stock Exchange, (i) CITIC will not engage and will procure its subsidiaries (excluding DCH and its subsidiaries) not to engage in the trading and distribution of motor vehicles, food commodities, fast moving consumer goods and consumer products and provision of logistics services as then engaged in by DCH and disclosed in the prospectus dated 4 October 2007 (the "Prospectus"), or in any other business that may compete, directly or indirectly, with such business ("Restricted Activity"), and (ii) in the event that any opportunity is made available to CITIC to invest in any independent third party's business engaging in the Restricted Activity, CITIC 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 has executed a deed of indemnity dated 28 September 2007 in favour of the Group under which CITIC agreed to indemnify the Group in respect of various issues if such matters subsisted prior to the listing of DCH. 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. A sum of HK$22 million in respect of taxation claims has been made by the Group against CITIC pursuant to the indemnity during the financial year ended 31 December 2016.

Apart from the above and the transactions as mentioned in the section headed "Continuing Connected Transactions" in this report, none of DCH and its subsidiaries entered into any other contract of significance with DCH's controlling shareholders or their subsidiaries which were subsisting during the financial year ended 31 December 2016.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

None of the Directors has or at any time during the year had, an interest which is or was material, either directly or indirectly, in any transaction, arrangement or contract with DCH or any of its subsidiary companies, which was significant in relation to the business of DCH, 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 34 to the financial statements. Some of these transactions also constitute "Continuing Connected Transactions" under the Listing Rules as summarised below.

CONTINUING CONNECTED TRANSACTIONS

During 2016, the Group has entered into the following continuing connected transactions which constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirements under Chapter 14A of the Listing Rules.

1. Leasing of premises for operations of the Group

On 29 May 2015, DCH entered into tenancy agreements in respect of following properties (the "Tenancy Agreements") with the respective landlords, all being subsidiaries of CITIC, for leasing the premises necessary for the operations of its business in Hong Kong for a term of 3 years from 1 June 2015 to 31 May 2018. Details of these tenancies are as follows:

Location	Monthly Rental HK$	Term
7/F–12/F CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	1,283,507.00	1.6.2015 – 31.5.2018
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	2,350,231.00	1.6.2015 – 31.5.2018
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, Nos. 220–248 Texaco Road, Tsuen Wan, New Territories, Hong Kong	497,477.00	1.6.2015 – 31.5.2018
Unit A on G/F, Units 1A, 1B and 1C on 1/F, Portion on 1/F, 2/F, Storeroom on 7/F and Portion on 8/F and Unit C on 12/F of No. 111 Lee Nam Road, Ap Lei Chau, Hong Kong	1,772,697.00	1.6.2015 – 31.5.2018
DCH Building, No. 20 Kai Cheung Road, Kowloon, Hong Kong	11,610,688.00	1.6.2015 – 31.5.2018

The annual cap (including rentals, management fees and other outgoings (other than those which are collected by relevant landlords from DCH for payments to independent third parties)) payable under the Tenancy Agreements for the financial years ended 31 December 2016 and ending 31 December 2017 and 2018 is approximately HK$236.3 million, HK$247.1 million and HK$102.9 million, respectively. The aggregate amount paid by the Group to the relevant landlords under the Tenancy Agreements during the year was approximately HK$214.8 million which did not exceed the capped amount.

CITIC is a controlling shareholder of DCH. The respective landlords are subsidiaries of CITIC and are therefore connected persons of DCH. Accordingly, the transactions under the Tenancy Agreements constituted continuing connected transactions of DCH.

2. In the ordinary and usual course of business, the Group maintains balance of bank deposits with China CITIC Bank Corporation Limited ("CITIC Bank", a non-wholly owned subsidiary of CITIC and therefore a connected person of DCH), on normal commercial terms. On 21 August 2015, DCH entered into a master agreement with CITIC Bank setting out the maximum balances of bank deposits (including any interests accrued thereon) in aggregate maintained by the Group with CITIC Bank on any given day for the years ended 31 December 2016 and ending 31 December 2017 would not exceed RMB240.0 million.

In 2016, the maximum aggregate balance of bank deposits maintained by the Group with CITIC Bank totalled approximately RMB11 million, which did not exceed the capped amount on any given day.

REVIEW OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors 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 better; 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 DCH as a whole.

DCH's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 "HKICPA"). The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 70 to 71 of the 2016 Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter will be provided by DCH to the Stock Exchange.

CONTRACTUAL ARRANGEMENTS

The Group has been conducting its PRC operations in industries that were subject to foreign ownership restrictions through various companies incorporated in the PRC (the "OPCOs"), which are owned by persons with the legal capacity under PRC regulations to be shareholders (the "Registered Owners") for the benefit 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 DCH, and therefore such Contractual Arrangements would technically constitute connected transactions of DCH 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 2016 are set out below:

	Name of OPCO	Date of establishment of OPCO	Registered Capital (Note iv) 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 v)	Group's attributable interests
1	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%) 許學華 (Xu Xuehua) (40%)	3.528 2.352	Dah Chong Hong (China) Limited	100%
2	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%) 嚴夢英 (Yan Mengying) (20%)	– 0.2	Dah Chong Hong (China) Limited	100%
3	廣東日產汽車貿易有限公司 (Guangdong Nissan Motor Trading Co., Ltd.)	15.8.2000	10	王靜芬 (Wang Jingfen) (50%)	5	Triangle Motors (Macau) Limited	50%
4	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	30	廣州駿安貿易有限公司 (Guangzhou Junan Trading Limited) (55%)	16.5	Profit Paradise Investments Limited	27.5% (Note i)
5	茂名市大昌行駿昇汽車銷售服務有限公司 (MaoMing Dah Chong Hong Junsheng Motors Sale and Service Limited)	14.3.2008	10	湛江市駿凱汽車技術服務有限公司 (Zhanjiang Junkai Motors Technology and Service Limited) (80%) 廣東日產汽車貿易有限公司 (Guangdong Nissan Motor Trading Co., Ltd.) (20%) (Note ii)	– 0.002	湛江市駿凱汽車技術服務有限公司 (Zhanjiang Junkai Motors Technology and Service Limited)	90.01%
6	廣州市廣保汽車維修有限公司 (Guangzhou Guangbao Motor Service Station Limited)	5.7.2011	0.3	胡麗紅 (Hu Lihong) (100%)	0.3	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 iii)

Notes:

i. The Group has casting vote at shareholders' meetings of the company and the company is accounted for as a subsidiary of the Group.

ii. 0.02% of equity contribution is held under the Contractual Arrangement by 廣東日產汽車貿易有限公司 (Guangdong Nissan Motor Trading Co., Ltd.).

iii. The Group holds 50% economic interest and has casting vote at shareholders' meeting of the company, and therefore, the company is accounted for as a subsidiary of the Group.

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

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

vi. 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 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) dividends declared by OPCOs for the year ended 31 December 2016 have been paid to the Company's relevant subsidiary and not to the Registered Owner(s) and (iv) no new Contractual Arrangement were entered into during the year.

DCH's auditor was 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 HKICPA. The auditor has issued their letter containing their fact findings in respect of the conditions as set out in the Prospectus, as required by the specific waiver granted by the Stock Exchange to DCH dated 28 September 2007. A copy of the auditor's letter will be provided by DCH to the Stock Exchange.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Group as set out under the section headed "Share Option Scheme" of this report below, no equity-linked agreements were entered into by the Group, or existed during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Prior to joining DCH, Mr Lai Ni Hium ("Mr Lai") was an executive director of China Resources Beer (Holdings) Company Limited ("CRBH"). He remains as a non-executive director of CRBH and holds less than 0.01% interest in CRBH. CRBH and its subsidiaries is primarily a beer business. Mr Lai also holds directorships in China Resources Kirin Beverages (Greater China) Company Limited and two of its subsidiaries which engaging in the manufacturing, sales and distribution of purified water and beverage products and Gain Land Limited which engages in the business of multi-category retailing through hypermarkets, supermarkets, convenience stores, cash and carry business or liquor stores or other multi-category retail format.

Although the Group also engages in the sale and distribution of consumer products including food, logistics and e-commerce, the businesses of the aforesaid companies and the Group are vastly different in terms of business models, product mix, geographical reach and consumer base. Moreover, the Board is independent from the boards of directors of the aforesaid companies and Mr Lai cannot personally control the Board. Further, Mr Lai is fully aware of, and has been discharging, his fiduciary duty to DCH and has acted and will continue to act in the best interest of DCH and its shareholders as a whole. Therefore, the extent to which the businesses of the aforesaid companies and the Group compete or is likely to compete, either directly or indirectly, is minimal, and the interests of Mr Lai is disclosed for information only.

SHARE OPTION SCHEME

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

a. The purpose of the Scheme is to attract and retain the best quality personnel for the development of DCH's businesses; to provide additional incentives to the employees of the Group and to promote the long term financial success of DCH by aligning the interests of grantees to DCH's shareholders.

b. The participants of the 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 Scheme and any other schemes of DCH shall not in aggregate exceed 10% of (i) the shares of DCH in issue immediately following the commencement of dealings in DCH's shares on the Stock Exchange or (ii) the shares of DCH in issue from time to time, whichever is the lower. As at 28 February 2017, the maximum number of shares available for issue under the Scheme is 117,650,000, representing approximately 6.42% of the issued shares of DCH. Share options lapsed in accordance with the terms of the Scheme or any other schemes of DCH 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 DCH in issue.

e. The exercise period of any share option granted under the 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 DCH's shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; and (ii) the average closing price of DCH's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant.

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

Since the adoption of the Scheme, DCH has granted the following 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
8.6.2012	24,450,000	8.6.2013 – 7.6.2017*	7.400
30.4.2014	28,200,000	30.4.2015 – 29.4.2019*	4.930

* Subject to a vesting scale

The share options granted on 7 July 2010 had expired by the close of business on 6 July 2015.

Of the share options granted on 8 June 2012, 24,250,000 were accepted and 200,000 were not as at the latest date of acceptance pursuant to the scheme rules (i.e. 5 July 2012). The share options granted are subject to a vesting scale. 25% of the share options granted will vest on the first anniversary of the date of grant. A further 25% will vest on the second anniversary of the date of grant and the remaining 50% of the share options granted will vest on the third anniversary of the date of grant. The vested options are exercisable in whole or in part within 5 years from the date of grant. The closing price of the shares of DCH immediately before the grant on 8 June 2012 was HK$7.49 per share. The remaining contractual life of the share options is 0.4 year.

Of the share options granted on 30 April 2014, 27,850,000 were accepted and 350,000 were not as at the latest date of acceptance pursuant to the scheme rules (i.e. 28 May 2014). The share options granted are subject to a vesting scale. 25% of the share options granted will vest on the first anniversary of the date of grant. A further 25% will vest on the second anniversary of the date of grant and the remaining 50% of the share options granted will vest on the third anniversary of the date of grant. The vested options are exercisable in whole or in part within 5 years from the date of grant. The closing price of the shares of DCH immediately before the grant on 30 April 2014 was HK$4.91 per share. The remaining contractual life of the share options is 2.3 years.

During the year ended 31 December 2016, 2,500,000 share options under the Scheme were lapsed, none of the share options under the Scheme were exercised and cancelled.

A summary of the movements of the share options under the Scheme during the year ended 31 December 2016 is as follows:

1. DCH Directors

				Number of share options					
Name of Director	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1.1.2016	Granted during the year ended 31.12.2016	Lapsed/ cancelled during the year ended 31.12.2016	Exercised during the year ended 31.12.2016	Balance as at 31.12.2016	Approximate percentage to the number of issued shares
Yip Moon Tong	8.6.2012	8.6.2013 – 7.6.2017	7.40	1,800,000	–	–	–	1,800,000	
	30.4.2014	30.4.2015 – 29.4.2019	4.93	1,800,000	–	–	–	1,800,000	
				3,600,000				3,600,000	0.196%
Lau Sei Keung	8.6.2012	8.6.2013 – 7.6.2017	7.40	1,450,000	–	–	–	1,450,000	
	30.4.2014	30.4.2015 – 29.4.2019	4.93	1,450,000	–	–	–	1,450,000	
				2,900,000				2,900,000	0.158%
Glenn Robert Sturrock Smith (Note 1)	8.6.2012	8.6.2013 – 7.6.2017	7.40	1,100,000	–	–	–	1,100,000	
	30.4.2014	30.4.2015 – 29.4.2019	4.93	1,100,000	–	–	–	1,100,000	
				2,200,000				2,200,000	0.120%
Wai King Fai, Francis (Note 2)	8.6.2012	8.6.2013 – 7.6.2017	7.40	900,000	–	–	–	(Note 2)	
	30.4.2014	30.4.2015 – 29.4.2019	4.93	900,000	–	–	–	(Note 2)	
				1,800,000				N/A	N/A

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

Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2016	Granted during the year ended 31.12.2016	Lapsed/ cancelled during the year ended 31.12.2016	Exercised during the year ended 31.12.2016	Balance as at 31.12.2016	Approximate percentage to the number of issued shares
8.6.2012	8.6.2013 – 7.6.2017	7.40	13,000,000 *(Note 3)*	–	1,100,000	–	10,950,000 *(Note 4)*	0.598%
30.4.2014	30.4.2015 – 29.4.2019	4.93	18,050,000 *(Note 3)*	–	1,400,000	–	15,700,000 *(Note 4)*	0.857%

3. Others *(Note 5)*

Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2016	Granted during the year ended 31.12.2016	Lapsed/ cancelled during the year ended 31.12.2016	Exercised during the year ended 31.12.2016	Balance as at 31.12.2016	Approximate percentage to the number of issued shares
8.6.2012	8.6.2013 – 7.6.2017	7.40	3,950,000 *(Note 3)*	–	–	–	5,800,000 *(Notes 2 & 4)*	0.317%
30.4.2014	30.4.2015 – 29.4.2019	4.93	2,600,000 *(Note 3)*	–	–	–	4,450,000 *(Notes 2 & 4)*	0.243%

Notes:

1. Mr Glenn Robert Sturrock Smith retired as an executive Director of DCH on 1 January 2017.

2. 900,000 share options (granted on 8 June 2012) and 900,000 share options (granted on 30 April 2014) were reclassified and added to the closing balance in "Others" subsequent to Mr Wai King Fai, Francis' retirement as an executive Director of DCH on 10 May 2016.

3. 500,000 share options (granted on 8 June 2012) and 1,100,000 share options (granted on 30 April 2014) were added to the opening balance in "Others" subsequent to certain employees having retired on 1 January 2016.

4. 950,000 share options (granted on 8 June 2012) and 950,000 share options (granted on 30 April 2014) were reclassified and added to the closing balance in"Others" subsequent to certain employees having retired during the year ended 31 December 2016.

5. These are in respect of share options granted to former employees whose employment was terminated other than for cause or misconduct.

DIRECTORS' INTERESTS IN SECURITIES

The interests of the Directors in shares of DCH or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 2016 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. Shares in DCH

Name of Director	Number of shares Personal interests unless otherwise stated	Approximate percentage to the number of issued shares
Yip Moon Tong	1,300,000 (Note i)	0.071%
Lai Ni Hium	200,000	0.011%
Lau Sei Keung	180,000	0.010%
Glenn Robert Sturrock Smith (Note ii)	50,000	0.003%

Notes:

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

ii. Mr Glenn Robert Sturrock Smith retired as executive Director of DCH with effect from 1 January 2017.

2. Shares in Associated Corporation

(a) CITIC Limited

Name of Director	Number of shares Personal interests	Approximate percentage to the number of issued shares
Lau Sei Keung	1,000	0.000003%

(b) CITIC Telecom International Holdings Limited

Name of Director	Number of shares Personal interests	Approximate percentage to the number of issued shares
Kwok Man Leung	150,000	0.004%

3. Share Options in DCH

The interests of the Directors in the share options (being regarded as unlisted physically settled equity derivatives) of DCH are stated in detail in the section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2016, none of the Directors 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 DCH or its associated corporations or any interests which were required to be entered into the register kept by DCH pursuant to section 352 of the SFO or any interests which were required to be notified to DCH and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the interests of the substantial shareholders, other than the Directors or their respective associate(s), in the shares of DCH as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	**Number of shares of DCH**	**Approximate percentage to the number of issued shares**
CITIC Group Corporation	1,027,307,000	56.07%
CITIC Limited	1,027,307,000	56.07%
CITIC Pacific Limited	1,027,307,000	56.07%
Davenmore Limited	1,018,800,000	55.61%
Colton Pacific Limited	800,922,200	43.72%
Chadacre Developments Limited	245,102,000	13.38%
Ascari Holdings Ltd.	217,877,800	11.89%
Cornaldi Enterprises Limited	95,317,400	5.20%

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 subsidiaries.

CITIC Pacific was deemed to be interested in 1,027,307,000 shares through its direct wholly-owned subsidiary, Davenmore Limited as to 1,018,800,000 shares and its indirect wholly-owned subsidiary, Hainsworth Limited as to 8,507,000 shares.

CITIC was deemed to be interested in 1,027,307,000 shares through its direct wholly-owned subsidiary, CITIC Pacific.

CITIC Group Corporation was deemed to be interested in 1,027,307,000 shares through its wholly-owned subsidiaries, with CITIC Polaris Limited and CITIC Glory Limited respectively interested in 32.53% and 25.60% of the issued shares of CITIC.

SHARES ISSUED

Details of the shares of DCH issued during the year are set out in note 27 to the financial statements.

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.

SERVICE CONTRACTS

As at 31 December 2016, there were no service contracts which were not determinable by the employer within 1 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.

PERMITTED INDEMNITY PROVISION

Pursuant to DCH's Articles of Association, every Director shall be entitled to be indemnified out of the assets of DCH against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. DCH has arranged directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year.

AUDITOR

The financial statements for the year have been audited by KPMG who will retire at the AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-election of KPMG as auditor of DCH is to be proposed at the AGM.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to DCH and within the knowledge of the Directors, the Directors confirm that DCH maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2016.

By order of the Board
Zhang Jijing *Chairman*
Hong Kong, 28 February 2017

Independent Auditor's Report

Independent auditor's report to the members of
Dah Chong Hong Holdings Limited
(Incorporated in Hong Kong with limited liability)

OPINION

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 89 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Valuation of inventories

Refer to note 20 to the consolidated financial statements and the accounting policies in note 1(o).

The Key Audit Matter

As at 31 December 2016, the Group held significant motor, food, healthcare and consumer products inventories with a total carrying value of HK$7,161 million. The total net write-down of inventories during the year ended 31 December 2016 amounted to HK$122 million.

Sales of these inventories can be volatile due to changing consumer demands and the current economic environment affecting consumer spending. For the motor industry, sales can also be impacted by release of new car models as well as changes in government policies affecting the markets in which the Group operates.

The Group typically sells slow-moving motor inventories at a markdown from the original price to maintain a healthy level of inventories and make room for new models in its showrooms and car centres. Accordingly, the actual future selling prices of some inventory items may fall below their purchase costs.

For food inventories, the Group tracks their expiry dates and identifies slow-moving inventories by reviewing the inventory ageing report. In certain cases, unsold inventories may be returned to the suppliers under the terms of the distribution agreements at the original purchase cost subject to the suppliers' verification and acceptance. The Group may also reduce the original selling prices to clear out inventories before their expiry dates. Therefore, certain slow-moving inventories may have a net realisable value lower than their cost.

We identified the valuation of inventories as a key audit matter because of the exercise of significant judgement by management in determining appropriate inventory provisions whereby management assesses the net realisable value of inventories and estimates returns of slow-moving inventories to suppliers.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of inventories included the following:

- assessing whether the inventory provisions at the end of the reporting period were determined in a manner consistent with the Group's inventory provision policy by recalculating the inventory provisions based on the percentages and other parameters in the Group's inventory provision policy;
- assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing category by comparing individual items with the underlying goods receipt notes; and for food inventories, assessing the appropriate expiry date category by comparing expiry dates to the expiry information marked or tagged on the food products;
- enquiring of management about any expected changes in plans for markdowns or disposals of slow-moving or obsolete inventories and comparing their representations with actual transactions subsequent to the reporting date and assumptions adopted in determining the inventory provisions;
- assessing the historical accuracy of management's estimation of inventory provisions by (1) comparing, on a sample basis, management's forecast of the sales of slow-moving inventories identified in the prior year and the estimated price markdowns to subsequent sales and (2) examining additional provisions made in respect of slow-moving inventories identified in the prior year and the utilisation or release of previously recorded inventory provisions;
- obtaining a sample of distribution agreements and reading the relevant terms relating to the Group's right of return where unsold inventories are to be returned to suppliers;
- assessing the historical accuracy of management's estimation of returnable inventories by comparing, on a sample basis, management's forecast of returns of unsold inventories to suppliers identified in the prior year to subsequent actual returns; and
- assessing the Group's inventory provision policy and the relevant disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Recognition of amounts receivable from suppliers for the food and consumer products and LFA Business segments

Refer to note 22 to the consolidated financial statements and the accounting policies in notes 1(q) and 1(m)(i).

The Key Audit Matter

The Group acts as distributors for various fast moving consumer goods in Hong Kong, mainland China and overseas. Segment turnover of the Group's food and consumer products segment and the Asia consumer and healthcare distribution ("LFA Business") segment acquired by the Group which was completed on 30 June 2016 amounted to HK$9,952 million and HK$3,881 million respectively which represented in aggregate 30% of the Group's consolidated turnover for the year ended 31 December 2016. These segments are characterised by a significant number of customers and suppliers and the variety of trade terms involved in the distribution arrangements with customers and suppliers.

The distribution agreements with customers and suppliers set out the respective obligations and rights of the Group and the customers and suppliers. The key terms include the marketing and pricing of the goods, the return of unsold goods, discounts, rebates and incentives, invoicing and payment terms and reimbursement of advertising and promotion expenses. The terms of the distribution agreements can vary significantly in nature.

During the year ended 31 December 2016, the Group recognised impairment losses for trade debtors and other receivables for the food and consumer products and LFA Business segments of HK$163 million and HK$5 million respectively, which mainly represented impairment losses for amounts receivable from suppliers.

Amounts receivable from suppliers, which represent amounts due for the return of unsold goods, discounts, rebates and incentives and advertising and promotion expenses paid on behalf of the suppliers, are recognised as receivables when the Group establishes its rights to recover these amounts from the suppliers in accordance with the terms of the distribution agreements. The Group collects and maintains documentation, including information provided by its customers, to support the claims submitted to the suppliers with reference to the requirements of the distribution agreements.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of amounts receivable from suppliers for the food and consumer products and LFA Business included the following:

- inspecting the major distribution agreements entered into by the subsidiaries acquired through the acquisition of the LFA Business during the year ended 31 December 2016 to understand the key terms and their financial impact;
- assessing the accounting treatment in respect of the recognition of return of unsold goods, discounts, rebates and incentives and reimbursement of advertising and promotion expenses by inspecting the key terms and conditions set out in the major distribution agreements with suppliers with reference to the requirements of the prevailing accounting standards;
- evaluating, on a sample basis, the inputs to calculate discounts, rebates and incentives receivable from suppliers by comparing the inputs with underlying documentation, including sales and purchase volume data from suppliers' statements and discount and rebate rates and incentives documented in the respective agreements, and performing recalculations of the amounts to which the Group is entitled based on the above inputs;
- inspecting, on a sample basis, correspondence with suppliers in respect of unsold goods returned by the Group during the year ended 31 December 2016 and assessing whether these returns were accepted by the suppliers at a price not less than their original purchase costs;

KEY AUDIT MATTERS (CONTINUED)

Recognition of amounts receivable from suppliers for the food and consumer products and LFA Business segments (continued)

The Key Audit Matter	How the matter was addressed in our audit
This documentation is voluminous, given the number of customers and suppliers and there is a risk that the Group may not be able to determine if and when it is able to claim discounts, rebates and incentives and advertising and promotional expenses from its suppliers or if it will be able to return goods to its suppliers. We identified the recognition of amounts receivable from suppliers for the food and consumer products and LFA Business segments as a key audit matter because the significant number of customers and suppliers involved and because the complexity and wide range of contractual terms with customers and suppliers increases the risk that the consolidated financial statements may not promptly or accurately reflect the Group's entitlements under the contracts agreed with suppliers.	• inspecting, on a sample basis, documentation to support claims submitted by the Group to its suppliers and the correspondence with its suppliers during the year ended 31 December 2016; • comparing the year end balances of amounts receivable from suppliers with the respective balances in prior years and the current year's movements with historical movements to identify receivables which are relatively significant and long outstanding, inspecting documentation to assess the Group's entitlement to the identified receivable balances, enquiring of management as to the reasons for the delay in settlement and assessing the financial impact on the Group; • obtaining direct confirmations, on a sample basis, from suppliers of the balances of advertising and promotion reimbursement receivables, receivables arising from the return of unsold goods and discounts, rebates and incentives receivable from suppliers outstanding at the end of the reporting period; and • enquiring of management to identify any disputes with and changes in the circumstances of suppliers and assessing the financial impact on the Group.

KEY AUDIT MATTERS (CONTINUED)

Assessing disputes with joint ventures

Refer to note 18 to the consolidated financial statements and the accounting policies in notes 1(d), 1(m)(ii) and 1(w).

The Key Audit Matter

The Group's share of net assets and goodwill of joint ventures amounted to HK$193 million as at 31 December 2016. In addition, amounts due from joint ventures, net of a provision of HK$60 million, amounted to HK$171 million as at 31 December 2016. A material portion of the above balances was associated with several joint ventures which operate car dealerships and motor related businesses in southern China ("the Joint Ventures").

In 2015, the Joint Ventures commenced litigation against certain subsidiaries of the Group in connection with disputes relating to rental payments. In addition, the Group commenced litigation against the Joint Ventures to seek repayment of the amounts due from the Joint Ventures.

These litigation cases are ongoing and management exercised judgement in estimating the outcome of the litigation and assessing the quantum of the provisions made by the Group at the reporting date in connection with the litigations. As at 31 December 2016, provision for disputed rental and provision for impairment in respect of amounts due from the Joint Ventures in dispute amounted to HK$20 million and HK$11 million respectively.

We identified assessing disputes with joint ventures as a key audit matter because the litigation may have an impact on the recoverability of the Group's interests in the Joint Ventures, the provision for liabilities and the disclosure of contingent liabilities in connection with the rental disputes.

How the matter was addressed in our audit

Our audit procedures to assess the disputes with the Joint Ventures included the following:

- examining correspondence between the Group and the Joint Ventures and their respective legal advisors regarding the litigation and enquiring of management about the current status and their assessment of the possible outcome of the litigation to assess the potential financial impact on the Group;
- assessing the external legal advisors' qualifications, experience and expertise in the subject matter being advised and considering their objectivity and independence;
- obtaining an opinion directly from the external legal advisors of the Group of their assessment of the possible outcome of the outstanding litigation;
- assessing the Group's provision for liabilities in connection with the litigation by comparing the provision amount to the possible range of financial exposure as assessed by the external legal advisors;
- assessing the financial positions of the Joint Ventures with reference to the Joint Ventures' latest available management accounts and evaluating management's assessment of the recoverability of the interests in the Joint Ventures; and
- evaluating the disclosures in the consolidated financial statements in respect of the disputed rental and the contingent liability arising from the litigation between the Group and the Joint Ventures with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Accounting for the acquisition of LFA Business

Refer to note 29 to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
On 30 June 2016, the Group completed the acquisition of LFA Business and paid a total consideration of US$333 million (after certain adjustments). Further details are set out in note 29 to the consolidated financial statements. Goodwill arising from this acquisition amounted to HK$1,775 million, which represented the excess of the consideration paid over the Group's share of the fair value of the identifiable net assets, including the intangible assets of principal and channel relationships, of the acquired business. The fair values of the identifiable assets and liabilities acquired in these transactions were assessed by the directors based on an independent valuation prepared by a firm of external valuers which required the exercise of significant judgement and estimation, particularly in relation to the forecast of future performance of the businesses acquired. The fair values of the identifiable assets and liabilities arising from this acquisition and the related consideration were determined provisionally as at 31 December 2016 and are subject to adjustment. We identified the accounting for the acquisition of LFA business as a key audit matter because of the significant impact the acquisition has on the consolidated financial statements and because the valuation of assets and liabilities acquired can be inherently subjective and requires significant judgement and estimation which increases the risk of error or potential management bias.	Our audit procedures to assess the accounting for the acquisition of LFA business included the following: • inspecting the sale and purchase agreement and evaluating management's accounting treatment for the acquisition with reference to the terms set out in the sale and purchase agreement; • obtaining and inspecting the valuation assessment prepared by the external valuers engaged by the directors and on which the directors' assessment of the provisional fair values of the assets and liabilities acquired was based; • assessing the external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity and independence; • with the assistance of our internal valuation specialists, discussing with the external valuers, without the presence of management, the valuation methodologies adopted in assessing the fair values of the assets and liabilities acquired, including intangible assets, and challenging the assumptions and critical judgements which impacted their valuation by comparing these assumptions and critical judgements with market data, our past experience of similar transactions and the Group's business plan supporting the acquisition; • with the assistance of our internal valuation specialists, assessing the valuation methodologies adopted by the external valuers with reference to industry standards and the requirements of the prevailing accounting standards; and • assessing the disclosures in the consolidated financial statements in respect of the acquisition with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance of the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Sau Ling.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 February 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

HK$ million	Note	**2016**	2015
Turnover	3	**46,462**	44,803
Cost of sales		**(41,001)**	(39,565)
Gross profit		**5,461**	5,238
Other income	5	**787**	755
Net gain / (loss) on disposal of subsidiaries	6	**249**	(1)
Net gain on disposal of an associate	6	**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	21	**188**	–
Net gain on remeasurement of investment properties	13(a)	**3**	18
Finance costs	7(a)	**(189)**	(212)
Share of profit after tax of associates	17	**11**	23
Share of profit after tax of joint ventures	18	**19**	12
Profit before taxation	7	**1,097**	934
Income tax	8	**(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)	12	**27.89**	31.11

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

HK$ million	Note	**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	13(c)	**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	13(a)	**3,318**	3,485
Investment properties	13(a)	**215**	384
Lease prepayments	14	**499**	568
Intangible assets	15	**1,154**	866
Goodwill	16	**2,403**	636
Interests in associates	17	**175**	350
Interests in joint ventures	18	**364**	411
Other non-current assets	19	**464**	86
Deferred tax assets	26(a)	**102**	115
		8,694	6,901
Current assets			
Inventories	20(a)	**7,161**	6,811
Asset held for sale	21	**366**	–
Trade debtors and other receivables	22	**8,013**	6,312
Current tax recoverable		**21**	24
Cash and bank deposits	23	**1,160**	1,110
		16,721	14,257
Current liabilities			
Borrowings	24	**2,357**	2,455
Trade creditors and other payables	25	**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	24	**5,067**	4,095
Other non-current liabilities		**75**	42
Put option written on non-controlling interest		**176**	158
Deferred tax liabilities	26(a)	**422**	260
		5,740	4,555
Net assets		**9,244**	9,488

Consolidated Statement of Financial Position (Continued)

At 31 December 2016

HK$ million	Note	**2016**	2015
Capital and reserves	27		
Share capital		**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

Approved and authorised for issue by the board of directors on 28 February 2017.

Zhang Jijing
Director

Yip Moon Tong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

HK$ million	Note	Attributable to shareholders of the Company											
		Share capital (27(a))	General reserve (27(b))	Capital reserve (27(c))	Statutory surplus reserve (27(d))	Merger reserve (27(e))	Share option reserve (27(f))	Exchange fluctuation reserve (27(g))	Asset revaluation reserve (27(h))	Retained profits	Total	Non-controlling interest	Total equity
At 1 January 2015		1,477	(47)	143	82	(43)	72	795	26	6,817	9,322	441	9,763
Profit for the year		–	–	–	–	–	–	–	–	570	570	67	637
Other comprehensive loss		–	–	–	–	–	–	(616)	–	–	(616)	(39)	(655)
Total comprehensive (loss) / income for the year		–	–	–	–	–	–	(616)	–	570	(46)	28	(18)
Acquisition of non-controlling interests		–	(12)	–	–	–	–	–	–	–	(12)	5	(7)
Reclassification	27(b)*(iii)*	–	4	–	(4)	–	–	–	–	–	–	–	–
Share-based payments	7(b)	–	–	–	–	–	16	–	–	–	16	–	16
Lapse of share options		–	–	–	–	–	(10)	–	–	10	–	–	–
Transfer from retained profits		–	122	–	4	–	–	–	–	(126)	–	–	–
Dividends	11	–	–	–	–	–	–	–	–	(233)	(233)	–	(233)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(33)	(33)
At 31 December 2015		1,477	67	143	82	(43)	78	179	26	7,038	9,047	441	9,488

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2016

		Attributable to shareholders of the Company												
HK$ million	Note	Share capital (27(a))	General reserve (27(b))	Capital reserve (27(c))	Statutory surplus reserve (27(d))	Merger reserve (27(e))	Share option reserve (27(f))	Exchange fluctuation reserve (27(g))	Asset revaluation reserve (27(h))	Hedging reserve (27(i))	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2016		1,477	67	143	82	(43)	78	179	26	–	7,038	9,047	441	9,488
Profit for the year		–	–	–	–	–	–	–	–	–	511	511	106	617
Other comprehensive (loss) / income		–	–	–	–	–	–	(634)	11	(9)	–	(632)	(43)	(675)
Total comprehensive (loss) / income for the year		–	–	–	–	–	–	(634)	11	(9)	511	(121)	63	(58)
Tax indemnity from an intermediate holding company	27(b)(iii)	–	22	–	–	–	–	–	–	–	–	22	–	22
Fair value adjustment on put option written on non-controlling interest	27(b)(iii)	–	(18)	–	–	–	–	–	–	–	–	(18)	–	(18)
Capital injection from holders of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	2	2
Business combination	29	–	–	–	–	–	–	–	–	–	–	–	33	33
Share-based payments	7(b)	–	–	–	–	–	6	–	–	–	–	6	–	6
Lapse of share options		–	–	–	–	–	(4)	–	–	–	4	–	–	–
Transfer from retained profits		–	15	–	6	–	–	–	–	–	(21)	–	–	–
Dividends	11	–	–	–	–	–	–	–	–	–	(204)	(204)	–	(204)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(27)	(27)
At 31 December 2016		1,477	86	143	88	(43)	80	(455)	37	(9)	7,328	8,732	512	9,244

Consolidated Cash Flow Statement

For the year ended 31 December 2016

HK$ million	2016	2015
Operating activities		
Profit before taxation	**1,097**	934
Adjustments for		
– Net (gain) / loss on		
– remeasurement of an investment property reclassified as asset held for sale	**(188)**	–
– remeasurement of investment properties	**(3)**	(18)
– disposal of property, plant and equipment	**15**	1
– disposal of subsidiaries	**(249)**	1
– disposal of an associate	**(89)**	–
– disposal of available-for-sale investments	**–**	(1)
– 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
– Depreciation and amortisation	**581**	598
– Finance costs	**189**	212
– Interest income	**(11)**	(11)
– Share of profit after tax of associates	**(11)**	(23)
– Share of profit after tax of joint ventures	**(19)**	(12)
– Share-based payments	**6**	16
– Net fair value loss on foreign currency forward contracts	**2**	1
– Foreign exchange loss	**56**	64
Operating profit before changes in working capital	**1,614**	1,779
Decrease in inventories	**1,039**	1,739
(Increase) / decrease in trade debtors and other receivables	**(120)**	62
Increase / (decrease) in trade creditors and other payables	**67**	(176)
Cash generated from operations	**2,600**	3,404
Income tax paid	**(366)**	(374)
Net cash generated from operating activities	**2,234**	3,030

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2016

HK$ million	Note	2016	2015
Investing activities			
Payment for purchase of property, plant and equipment		**(645)**	(588)
Payment for lease prepayments		**(1)**	(69)
Proceeds from disposal of property, plant and equipment		**197**	200
Proceeds from disposal of available-for-sale investments		**–**	2
Net advance from / (repayment to) joint ventures		**24**	(13)
Net cash outflow for business combination	29	**(2,096)**	(283)
Net cash inflow from disposal of a subsidiary	30	**217**	18
Net cash inflow from disposal of an associate		**241**	–
Payment for contingent consideration payable		**(5)**	–
Capital injection from holders of non-controlling interests		**2**	–
Capital injection to joint ventures		**(31)**	–
Capital injection to associates		**(14)**	–
Interest received		**11**	11
Dividends received from an associate		**24**	–
Dividends received from joint ventures		**33**	2
Decrease in deposits with banks		**44**	110
Net cash used in investing activities		**(1,999)**	(610)
Financing activities			
Proceeds from bank and other loans drawdown		**13,123**	9,552
Repayment of bank and other loans		**(12,233)**	(11,681)
Repayment of loans to newly acquired subsidiaries' former related parties		**(480)**	–
Net cash used in acquisition of non-controlling interests		**–**	(7)
Tax indemnity from an intermediate holding company		**22**	–
Net repayment to holders of non-controlling interests		**(49)**	(77)
Interest paid		**(205)**	(209)
Dividends paid to shareholders of the Company		**(204)**	(233)
Dividends paid to holders of non-controlling interests		**(27)**	(33)
Net cash used in financing activities		**(53)**	(2,688)
Net increase / (decrease) in cash and cash equivalents		**182**	(268)
Cash and cash equivalents at 1 January		**909**	1,236
Effect of foreign exchange rates changes		**(49)**	(59)
Cash and cash equivalents at 31 December	23	**1,042**	909

1. SIGNIFICANT ACCOUNTING POLICIES

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

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 2.

(b) Changes in accounting policies

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intra-group balances, transactions and any unrealised profits and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated 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, and are presented in the consolidated statement of financial position 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 statement of profit or loss and consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income 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 the non-controlling interests' proportionate share of the acquired subsidiary's net identifiable assets.

Non-controlling interests with a put option written by the Group to the holders of non-controlling interests on their equity interests in a subsidiary are classified as financial liabilities. The financial liabilities are recognised initially at fair value. The fair value is remeasured at the end of each reporting period, with any resultant gain or loss being recognised in the Group's other comprehensive income.

Changes in the Group's equity interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions, whereby adjustments (the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration) are made directly in general reserve to reflect the changes in relative interests. No goodwill or 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 financial asset or, when appropriate, the cost on initial recognition of investment in an associate or a joint venture.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment losses.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates and joint ventures

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 joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture 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 net identifiable 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. The Group's share of the post-acquisition after tax results of the investees and any impairment loss for the year are recognised in the consolidated statement of profit or loss 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.

When the Group's share of losses exceeds its interest in the associate or the joint venture, 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 joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture, 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 joint venture, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) 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 unit ("CGU") and is tested annually for impairment.

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.

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Dated debt securities that the Group and / or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see Note 1(m)*(i)*).

At the end of each reporting period the fair value of available-for-sale investment is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated in the fair value reserve. Dividend income from these investments is recognised in profit or loss.

When the investments are derecognised or impaired (see Note 1(m)*(i)*), the cumulative gain or loss previously recognised 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivative financial instruments

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

(h) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

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

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

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

(ii) Hedge of net investments in foreign operations

The portion of exchange differences arising from foreign currency borrowings which effectively hedge the net investment in a foreign operation is recognised in other comprehensive income and accumulated in equity under exchange fluctuation reserve until the disposal of the foreign operation, at which time the accumulated exchange difference is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment properties

Investment properties are land and / or buildings which are owned and held to earn rental income and / or for capital appreciation. These include land held for currently undetermined future use.

Investment properties are stated in the consolidated statement of financial position 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.

(j) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Construction in progress represents property, plant and equipment under construction and is initially recognised in the consolidated statement of financial position at cost. 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, other directly attributable costs and borrowing costs.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item and is 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 reducing balance method or straight-line method 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 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 60 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 or on a straight-line basis over their estimated useful lives of 5 to 8 years.

– others are depreciated on a straight-line basis over their estimated useful lives of 2 to 20 years.

Both the useful life of a property, plant and equipment 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 consolidated statement of financial position at cost less accumulated amortisation and impairment losses. The useful life and method of amortisation of an intangible asset are reviewed annually.

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	40 years
Supplier relationship	9 – 16 years
Others	2 – 20 years

Intangible assets with an indefinite useful life are stated in the consolidated statement of financial position at cost less accumulated impairment losses, if any.

(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 assets 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 an operating lease that would otherwise meet the definition of an investment property is accounted for as if held under a finance lease; and

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

Operating lease payments (net of any incentives received from the lessor) are charged to 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 are amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property. The amortisation of lease prepayment is capitalised as part of cost of construction of building during the construction period.

Where the Group is a lessor under finance leases, a receivable equal to the net investment in the lease is recognised as finance lease receivable, which is included in the consolidated statement of financial position as trade debtors and other receivables for current portion and as non-current assets for non-current portion. Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m)*(i)*.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets

(i) Impairment of trade debtors and other receivables, finance lease receivables, held-to-maturity debt securities and available-for-sale investments

Trade debtors and other receivables, finance lease receivables, held-to-maturity debt securities and available-for-sale investments are reviewed for impairment at the end of each reporting period or 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:

– For trade debtors and other receivables and other financial assets 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 asset's original effective interest rate, 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. 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 fair value reserve is transferred to profit or loss. The amount of the cumulative loss to be 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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and other receivables, whose recovery is considered doubtful but not remote. In this case, the provision for impairment of trade debtors and other receivables are recorded separately.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill and intangible assets with an indefinite useful life, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– interests in subsidiaries, associates and joint ventures; and

– goodwill.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs of disposal and value-in-use. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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. 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 profit or loss in the year in which the reversals are recognised.

(n) 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.

Immediately before classification as held for sale, the measurement of the assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the asset is recognised at the lower of their carrying amount and fair value less costs to sell, except investment property which would be measured at fair value.

(o) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Inventories (continued)

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 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.

(p) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised loss and progress billings.

(q) Trade debtors and other receivables

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

(r) 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 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.

(s) Trade creditors and other payables

Trade creditors and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade creditors 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)

(t) 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 deposit. Bank overdrafts that are repayable on demand are also included as a component of cash and cash equivalents.

(u) 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 the Binomial Lattice Model, taking into account the terms and conditions upon which the options were granted.

Where the employees have to meet vesting conditions, the total estimated fair value of the options is spread over the vesting period. During the vesting period, the number of share options that is expected to vest is reviewed. The amount recognised as staff cost is adjusted to reflect the actual number of options that are vested (with a corresponding adjustment to share option reserve).

The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share capital account) or the option expires (when it is released directly to retained profits).

(v) Income tax

Income tax for the year comprises current income tax, movement 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

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 end of the reporting period. For investment properties carried at fair value, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying values at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

(w) Financial guarantees issued, provisions and contingent liabilities

Financial guarantees are contracts that require the Group or the Company to make specified payments to reimburse the beneficiary of the guarantee for a loss caused by a specified debtor who fails to make payment when due in accordance with the terms of a debt instrument.

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.

(x) 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 and motor yachts

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue recognition (continued)

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

Revenue arising from the sales of motor parts, accessories, foodstuff, consumer products and healthcare 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) Maintenance services income

Revenue arising from maintenance services is recognised on a straight-line basis over the respective maintenance periods.

(v) Logistics service income and other related services income

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

(vi) 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.

(vii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of work certified to date for the contract.

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

(viii) Commission and rebate income

Commission and rebate income (except for supplier rebate referred in Note 1(y)) are recognised at the time when the goods concerned are sold or related service is rendered to customers.

(ix) Subsidy income

Subsidy income is recognised when the rights to receive payment has been established.

(x) Dividend income

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Revenue recognition (continued)

(xi) Interest income

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

(xii) Interest income from finance lease

Interest income implicit in finance lease is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding balance of the receivables for each accounting period.

(y) Supplier rebate

Supplier rebate is recognised as a deduction from cost of sales based on the expected entitlement earned up to the reporting date.

(z) 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.

(aa) 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 end of the reporting period. Exchange differences are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income (see Note 1(h)*(ii)*).

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 transaction 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 measured.

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. Items in statement of financial position, including goodwill and fair value adjustments arising from acquisition, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange fluctuation reserve.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Translation of foreign currencies (continued)

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.

(ab) Related parties

(i) A person, or a close family member of that person, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the parent of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity is a parent company, subsidiary or fellow subsidiary of the Group.

(b) The entity is an associate or joint venture of the Group or vice versa (or an associate or joint venture of a member of a group of which the Group is a member or vice versa).

(c) The entity and the Group are joint ventures of the same third party.

(d) The entity is a joint venture of a third entity and the Group is an associate of the same entity, or vice versa.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in *(i)*.

(g) A person identified in *(i)*(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

(ac) 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. 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 and net assets acquired at business combination

The investment properties and net assets acquired at business combination are revalued by independent professional qualified valuers at the end of each reporting period. Such valuations are based on certain assumptions (see Note 13(f) and Note 29*(i)*), 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, other taxes and related surcharges

The Group is subject to income tax, other taxes and related surcharges in various jurisdictions. Significant judgement is required in determining the worldwide provisions for income tax, other taxes and related surcharges. There are transactions during the ordinary course of business, for which calculation of the ultimate income tax, other taxes and related surcharges determination is uncertain. Where the final outcomes are different from the amounts that were initially recorded, such differences will impact the income tax, deferred tax and other provisions in the year in which such determination is made.

Recognition of deferred tax assets, which principally related to tax losses, depends on 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 performs annual impairment test on goodwill, and also performs impairment assessment on the carrying amounts of other assets when indication of impairment is identified to determine whether there is objective evidence of impairment. Management assesses the differences between the carrying amount and recoverable amount and makes provision for impairment loss. Any change in the assumptions adopted in calculating the recoverable amount would increase or decrease the provision for impairment loss and affect the Group's financial position.

Provision for impairment of trade debtors and other receivables is assessed and made based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in such provision would affect the Group's profit or loss in future years.

(d) Provision for inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value. The net realisable value is estimated 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 financial position.

(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 the 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 such provision would affect the Group's profit or loss in future years.

2. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(f) Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised on a reducing balance method or straight-line method over the estimated useful lives. The Group reviews annually the useful life of these assets and their residual values, if any. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation.

(g) Contingent considerations of acquisitions

The Group has business combination involving post-acquisition performance-based contingent considerations. The Group recognises the fair value of those contingent considerations for acquisition at the acquisition date. These fair value measurements require estimation of post-acquisition performance of the acquired business and judgement on time value of money. Remeasurements of contingent considerations at their fair values resulting from events or factors emerging after the acquisition date would affect the Group's profit or loss in future years.

3. TURNOVER

The principal activities of the Group are sales of motor vehicles, motor related business and services, sales of food and consumer products, as well as logistics services. LFA business represents the distribution of consumer and healthcare products business conducted by LF Distribution Group (as defined in Note 29). Other business mainly represents rental income from investment properties and other non-core operations.

An analysis of turnover by business segment is as follows:

HK$ million	**2016**	2015
Sales of motor vehicles, yachts, parts, accessories and motor services	**32,594**	34,064
Sales of food and consumer products and logistics services income	**9,951**	10,709
LFA business	**3,879**	–
Revenue from other business	**38**	30
Total	**46,462**	44,803

4. 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.

4. SEGMENT REPORTING (CONTINUED)

(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 29)

The LFA Business principally consists of the distribution of consumer and healthcare products across Asia (see Note 29).

(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.

4. 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 29) is separately presented under "LFA Business".

4. 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

4. 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 29) is separately presented under "LFA Business".

4. 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:

HK$ million	Turnover from external customers **2016**	2015	Non-current assets **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

5. 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.

6. 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 30).

The net gain on disposal of an associate of HK$89 million in 2016 represents the disposal of Shanghai Shineway DCH Co., Ltd., details of which has been disclosed in "Interests in Associates" (Note 17).

7. PROFIT BEFORE TAXATION

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

(a) Finance costs

HK$ million	**2016**	2015
Interest on bank advances and other borrowings	**189**	212

(b) Staff costs

HK$ million	**2016**	2015
Salaries, wages and other benefits	**3,082**	2,944
Contributions to defined contribution retirement schemes (Note)	**161**	151
Share-based payments (Note 28)	**6**	16
Total	**3,249**	3,111

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 Mandatory Provident Fund Scheme ("MPF Scheme"). Assets of the MPF Scheme are held separately in funds under the custody of the respective trustees. The Group contributes to the MPF Scheme at 5% of the employee's monthly relevant income up to the prevailing maximum relevant income level. For employees who transferred from Occupational Retirement Scheme ("ORSO Scheme") to MPF Scheme, the Group continues to contribute 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 except for an entity in Macao, in which the Group continues to make voluntary contribution of 5% on monthly basis salary, with no cap to the pension scheme.

For Philippines, the local law mandates 50% of monthly salary per year of service while the Group makes a monthly provision of 7% of monthly salary, which is equivalent to 84% of monthly salary per year of service.

7. PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

HK$ million	Note	**2016**	2015
Amortisation			
– lease prepayments	14	**16**	15
– intangible assets	15	**69**	54
Depreciation	13(a)	**496**	529
Write-down of inventories	20(b)	**159**	83
Reversal of write-down of inventories	20(b)	**(37)**	(16)
Reversal of over-accrued supplier rebates		**–**	41
Net provision of impairment losses on			
– property, plant and equipment	13(a)	**6**	3
– intangible assets	15	**6**	–
– goodwill	16	**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
Net loss on realised foreign currency forward contracts		**9**	7
Auditors' remuneration			
– audit services		**27**	20
– tax services		**2**	2
– other services		**5**	2
Operating lease charges in respect of properties		**939**	872
Rental income from investment properties less direct outgoings of HK$12 million (2015: HK$12 million)		**(21)**	(17)

8. 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.

(a) 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 *(i)*)	**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

Notes:

(i) 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 (Note 27(b)*(iii)*).

(ii) Current tax recoverable and current tax payable in the consolidated statement of financial position are expected to be recovered / settled within one year.

8. INCOME TAX (CONTINUED)

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

HK$ million	**2016**	2015
Profit before taxation	**1,097**	934
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**216**	151
Tax effect of non-deductible expenses	**125**	52
Tax effect of non-taxable income	**(76)**	(23)
Tax effect of utilisation of previously unrecognised tax losses	**(47)**	(30)
Tax effect of recognition of previously unrecognised tax losses	**–**	(31)
Tax effect of unused tax losses not recognised	**129**	151
Under-provision in previous years	**44**	4
Withholding tax	**34**	7
Others	**40**	5
Income tax charge	**465**	286

9. DIRECTORS' EMOLUMENTS

Directors' emoluments for the years ended 31 December 2015 and 2016 are 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)*)	2016 Total	2015 Total
Executive directors								
Yip Moon Tong (Note *(ii)*)	–	4,763	5,085	457	10,305	522	10,827	13,930
Lai Ni Hium (Note *(iii)*)	–	2,978	2,917	11	5,906	–	5,906	–
Lau Sei Keung	–	3,174	4,907	306	8,387	420	8,807	10,061
Glenn Robert Sturrock Smith (Note *(iv)*)	–	3,362	1,110	130	4,602	319	4,921	5,401
Wai King Fai, Francis (Note *(v)*)	–	1,349	–	6	1,355	329	1,684	5,267
Non-executive directors								
Zhang Jijing	–	–	–	–	–	–	–	–
Kwok Man Leung	–	–	–	–	–	–	–	–
Fei Yiping	–	–	–	–	–	–	–	–
Independent non-executive directors								
Hsu Hsung, Adolf	420	–	–	–	420	–	420	420
Yeung Yue Man	420	–	–	–	420	–	420	420
Chan Kay Cheung	420	–	–	–	420	–	420	420
Chan Hui Dor Lam, Doreen (Note *(vi)*)	317	–	–	–	317	–	317	–
Woo Chin Wan, Raymond (Note *(vii)*)	210	–	–	–	210	–	210	–
Cheung Kin Piu, Valiant (Note *(viii)*)	210	–	–	–	210	–	210	420
Total	1,997	15,626	14,019	910	32,552	1,590	34,142	36,339

Notes:

(i) Details of the share option scheme are set out in note 28.

(ii) Mr. Yip Moon Tong, will retire as an executive director and chief executive officer of the Company with effect from 1 March 2017.

(iii) Mr. Lai Ni Hium, has been appointed as executive director and deputy chief executive officer of the Company with effect from 1 June 2016. Mr. Lai will be appointed as the chief executive officer of the Company with effect from 1 March 2017.

(iv) Mr. Glenn Robert Sturrock Smith, retired as an executive director of the Company with effect from 1 January 2017. Retirement benefits and other payments in respect of termination of services of HK$0.6 million and HK$0.1 million respectively have been included in "Salaries, allowances and other benefits".

(v) Mr. Wai King Fai, Francis, retired as an executive director of the Company with effect from 10 May 2016 and his emoluments up to the end 31 May 2016, excluding share-based payments, was HK$1.58 million. Retirement benefits and other payments in respect of termination of services of HK$0.1 million and HK$0.2 million respectively have been included in "Salaries, allowances and other benefits".

(vi) Mrs. Chan Hui Dor Lam, Doreen, has been appointed as an independent non-executive director of the Company with effect from 18 March 2016.

(vii) Mr. Woo Chin Wan, Raymond, has been appointed as an independent non-executive director of the Company with effect from 1 July 2016.

(viii) Mr. Cheung Kin Piu, Valiant, retired as an independent non-executive director of the Company with effect from 1 July 2016.

10. FIVE HIGHEST PAID INDIVIDUALS AND EMOLUMENTS OF SENIOR MANAGEMENT

(a) Five highest paid individuals

Of the five highest paid individuals of the Group for the years ended 31 December 2015 and 2016, four are directors of the Company, whose emoluments are disclosed in note 9. The emolument in respect of the remaining individual is as follows:

HK$ thousand	**2016**	2015
Salaries, allowances and other benefits	**2,580**	2,432
Discretionary bonuses	**2,716**	2,860
Contributions to defined contribution retirement schemes	**126**	119
Share-based payments	**261**	528
Total	**5,683**	5,939

(b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in notes 9 and 10(a), the emoluments of the senior management for the years ended 31 December 2015 and 2016 whose profiles are included in the section "Directors and Senior Management" fell within the following bands:

	Number of individuals	
Emolument band (HK$)	**2016**	2015
4,000,001 – 5,000,000	**1**	2
3,000,001 – 4,000,000	**5**	3
2,000,001 – 3,000,000	**5**	6
1,000,001 – 2,000,000	**1**	–
Total	**12**	11

11. 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

12. 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.

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

(a)

HK$ million	Note	Land and buildings held for own use	Construction in progress	Others	Sub-total	Investment properties	Total
	Note	13(d)		13(e)		13(f)	
Cost or valuation:							
At 1 January 2016		2,931	82	3,307	6,320	384	6,704
Exchange adjustments		(154)	(3)	(147)	(304)	–	(304)
Additions		18	104	489	611	–	611
Business combination	29	77	–	500	577	–	577
Transfer to asset held for sale	21	–	–	–	–	(178)	(178)
Transfer to inventories	13(b)	–	–	(40)	(40)	–	(40)
Transfer to investment properties	13(c)	(21)	–	–	(21)	40	19
Reclassification		18	(70)	52	–	–	–
Amortisation capitalised in construction in progress	14	–	1	–	1	–	1
Disposals and written-off		(47)	–	(479)	(526)	–	(526)
Disposal of a subsidiary	30	(302)	–	(11)	(313)	(34)	(347)
Net gain on remeasurement		–	–	–	–	3	3
At 31 December 2016		2,520	114	3,671	6,305	215	6,520
Representing:							
Cost		2,520	114	3,671	6,305	–	6,305
Valuation		–	–	–	–	215	215
At 31 December 2016		2,520	114	3,671	6,305	215	6,520
Accumulated depreciation and impairment:							
At 1 January 2016		853	–	1,982	2,835	–	2,835
Exchange adjustments		(50)	–	(83)	(133)	–	(133)
Business combination	29	28	–	306	334	–	334
Charge for the year		117	–	379	496	–	496
Impairment loss	13(i)	–	–	6	6	–	6
Transfer to inventories	13(b)	–	–	(33)	(33)	–	(33)
Transfer to investment properties	13(c)	(5)	–	–	(5)	–	(5)
Disposals and written-off		(31)	–	(283)	(314)	–	(314)
Disposal of a subsidiary	30	(190)	–	(9)	(199)	–	(199)
At 31 December 2016		722	–	2,265	2,987	–	2,987
Net book value:							
At 31 December 2016		1,798	114	1,406	3,318	215	3,533

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (CONTINUED)

(a) (continued)

HK$ million	Note	Land and buildings held for own use	Construction in progress	Others	Sub-total	Investment properties	Total
	Note	13(d)		13(e)		13(f)	
Cost or valuation:							
At 1 January 2015		2,974	126	3,608	6,708	374	7,082
Exchange adjustments		(154)	(1)	(122)	(277)	(8)	(285)
Additions		51	67	464	582	–	582
Business combination		10	–	13	23	–	23
Transfer to inventories	13(b)	–	–	(48)	(48)	–	(48)
Reclassification		56	(110)	54	–	–	–
Amortisation capitalised in construction in progress	14	–	1	–	1	–	1
Disposals and written-off		–	(1)	(651)	(652)	–	(652)
Disposal of a subsidiary		(6)	–	(11)	(17)	–	(17)
Net gain on remeasurement		–	–	–	–	18	18
At 31 December 2015		2,931	82	3,307	6,320	384	6,704
Representing:							
Cost		2,931	82	3,307	6,320	–	6,320
Valuation		–	–	–	–	384	384
At 31 December 2015		2,931	82	3,307	6,320	384	6,704
Accumulated depreciation and impairment:							
At 1 January 2015		776	–	2,111	2,887	–	2,887
Exchange adjustments		(41)	–	(62)	(103)	–	(103)
Business combination		4	–	9	13	–	13
Charge for the year		114	–	415	529	–	529
Impairment loss	13(i)	1	–	2	3	–	3
Transfer to inventories	13(b)	–	–	(39)	(39)	–	(39)
Disposals and written-off		–	–	(451)	(451)	–	(451)
Disposal of a subsidiary		(1)	–	(3)	(4)	–	(4)
At 31 December 2015		853	–	1,982	2,835	–	2,835
Net book value:							
At 31 December 2015		2,078	82	1,325	3,485	384	3,869

(b) During the year ended 31 December 2016, certain motor vehicles with carrying amount of HK$7 million (2015: HK$9 million) were transferred to inventories when they ceased to be rented.

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (CONTINUED)

(c) During the year ended 31 December 2016, certain land and buildings held for own use with carrying amount of HK$16 million and the corresponding lease prepayment with carrying amount of HK$6 million were transferred to investment properties as the property was leased out. The difference between its fair value and carrying amount at the date of transfer of HK$11 million (net of tax) was credited to asset revaluation reserve and was included in "revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property, net of tax" in the Group's comprehensive income.

(d) The net book value of land and buildings held for own use under finance lease was HK$139 million at 31 December 2016 (2015: HK$123 million).

(e) Others mainly comprise cargo lighters, computer installations, motor vehicles, plants, machineries, furniture, fixtures and equipment.

(f) Property valuation

All investment properties, except for the investment property reclassified as asset held for sale, were revalued at 31 December 2016 by the following independent valuers with recognised professional qualifications and relevant experience in the location and category of investment properties being revalued. The Group has discussed the valuation assumptions and valuation results with the valuers when the valuation is performed at the end of the reporting period.

Investment properties located in	Name of valuers
Hong Kong	Knight Frank Petty Limited
Mainland China	Knight Frank Petty Limited
Japan	Network Real Estate Appraisal Co Ltd

The investment property reclassified as asset held for sale (Note 21) is measured at fair value at 31 December 2016 by reference to the selling price on the real estate sales and purchase agreement signed with an independent third party.

Fair value hierarchy

The fair value measurement of the Group's investment properties and an investment property reclassified as asset held for sale at the end of the reporting period have been categorised into the three-level fair value hierarchy (Note 31(e)*(i)*). The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

The investment property reclassified as asset held for sale falls into Level 2 as there was no significant unobservable input. Such property was under Level 3 before its transfer to asset held for sale.

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (CONTINUED)

(f) Property valuation (continued)

All investment properties, except for the investment property reclassified as asset held for sale, fall into Level 3 and the movement during the year is as follows:

	Hong Kong	Mainland China	Japan	Total
At 1 January 2015	43	99	232	374
Exchange adjustments	–	(5)	(3)	(8)
Unrealised fair value gain (Note *(iii)*)	3	2	13	18
At 31 December 2015	46	96	242	384
At 1 January 2016	**46**	**96**	**242**	**384**
Exchange adjustments	**–**	**(8)**	**8**	**–**
Transfer to Level 3 (Note *(i)*)	**–**	**37**	**3**	**40**
Transfer out of Level 3 (Note *(ii)*)	**–**	**–**	**(178)**	**(178)**
Disposal of a subsidiary	**–**	**(34)**	**–**	**(34)**
Unrealised fair value (loss) / gain (Note *(iii)*)	**(1)**	**3**	**1**	**3**
At 31 December 2016	**45**	**94**	**76**	**215**

Notes:

(i) Being transfer from property, plant and equipment and lease prepayments to investment properties (Note 13(c)). The difference between the fair value and carrying amount at the date of transfer of HK$11 million (net of tax) was included in "revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property, net of tax" in consolidated statement of comprehensive income.

(ii) Being transfer to asset held for sale (Note 21).

(iii) The "unrealised fair value (loss) / gain" for the years ended 31 December 2015 and 2016 was related to investment properties held by the Group at the end of the reporting period and was included in "net gain on remeasurement of investment properties" in the consolidated statement of profit or loss.

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (CONTINUED)

(f) Property valuation (continued)

Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of certain investment properties located in Hong Kong and mainland China is determined by using income capitalisation approach which values the properties by capitalisation of the net rental income with due allowance to the reversionary income potential.

The fair value of certain investment properties located in mainland China is determined by using depreciated replacement cost approach which estimates the market value for the existing use of land, plus the gross replacement costs of the improvements as at the valuation date, less allowances for age, condition and functional obsolescence.

The fair value of certain investment properties located in Japan is determined by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality.

The fair value of certain investment properties located in Japan is determined by using direct comparison approach with reference to the market price of comparable properties and adjusted for building quality and timing of the reference transactions.

Location of properties	Valuation techniques	Unobservable input	Note	Range
Hong Kong	Income Capitalisation Approach	Average market rent per sq. ft. per month	*(i)*	HK$15.2 – HK$87.5 (2015: HK$15.6 – HK$90.4)
		Capitalisation rate	*(ii)*	3.5% – 4.0% (2015: 3.5% – 4.0%)
Mainland China	Income Capitalisation Approach	Average market rent per sq. m. per month	*(i)*	RMB15.5 – RMB38.1 (2015: RMB10.2 – RMB36.6)
		Capitalisation rate	*(ii)*	7.0% – 9.0% (2015: 7.0% – 9.0%)
	Depreciated Replacement Cost Approach	Average unit price of land per sq. m.	*(i)*	RMB308 – RMB421 (2015: RMB300 – RMB408)
		Average construction cost per sq. m.	*(i)*	RMB156 – RMB439 (2015: RMB170 – RMB463)
Japan	Discounted Cash Flow Approach	Discount rate	*(ii)*	6.0% (2015: 6.0% – 6.2%)
	Direct Comparison Approach	Property-specific adjusting rate	*(i)*	0.9 – 1.2 (2015: 0.9 – 1.2)

Notes:

(i) The higher the value, the higher the fair value

(ii) The higher the value, the lower the fair value

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (CONTINUED)

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

HK$ million	**2016**	2015
Investment properties		
In Hong Kong		
– Long term lease	**28**	28
– Medium term lease	**17**	18
Outside Hong Kong		
– Freehold properties	**76**	242
– Medium term lease	**94**	96
At 31 December	**215**	384

HK$ million	**2016**	2015
Land and buildings held for own use		
In Hong Kong		
– Long term lease	**61**	63
– Medium term lease	**231**	218
– Short term lease	**1**	1
Outside Hong Kong		
– Freehold properties	**58**	60
– Long term lease	**5**	–
– Medium term lease	**1,210**	1,483
– Short term lease	**232**	253
At 31 December	**1,798**	2,078

(h) Certain properties and buildings situated in mainland China and Taiwan with an aggregate net book value of HK$746 million at 31 December 2016 (2015: HK$886 million) were 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) During the year ended 31 December 2016, impairment losses of HK$6 million (2015: HK$2 million) have been recognised for property, plant and equipment under Motor and Motor Related Business with reference to their recoverable amounts.

Apart from the above, impairment losses of HK$1 million had been recognised for certain property, plant and equipment under Food and Consumer Products Business in 2015 based on their recoverable amounts.

The effect of discounting does not have a significant financial impact on all of the recoverable amounts.

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (CONTINUED)

(j) Property, plant and equipment and investment properties leased out under operating leases

The Group leases out various property, plant and equipment and investment properties 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 is receivable as follows:

HK$ million	**2016**	2015
Within 1 year	**128**	122
After 1 year but within 5 years	**128**	116
After 5 years	**63**	42
At 31 December	**319**	280

14. LEASE PREPAYMENTS

HK$ million	**2016**	2015
Cost:		
At 1 January	**661**	633
Exchange adjustments	**(48)**	(41)
Additions	**1**	69
Business combination (Note 29)	**80**	–
Disposal of a subsidiary (Note 30)	**(94)**	–
Transfer to investment properties (Note 13(c))	**(7)**	–
At 31 December	**593**	661
Accumulated amortisation and impairment:		
At 1 January	**93**	82
Exchange adjustments	**(7)**	(5)
Charge for the year	**16**	15
Amortisation capitalised in construction in progress (Note 13(a))	**1**	1
Business combination (Note 29)	**11**	–
Disposal of a subsidiary (Note 30)	**(19)**	–
Transfer to investment properties (Note 13(c))	**(1)**	–
At 31 December	**94**	93
Net book value:		
At 31 December	**499**	568

14. LEASE PREPAYMENTS (CONTINUED)

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

HK$ million	**2016**	2015
Outside Hong Kong		
– Long term lease	**6**	–
– Medium term lease	**479**	568
– Short term lease	**14**	–
At 31 December	**499**	568

The lease prepayments represent cost of land use rights.

15. INTANGIBLE ASSETS

HK$ million	**Car dealerships**	**Supplier relationship**	**Others**	**Total**
			(Note *(i)*)	
Cost:				
At 1 January 2016	**754**	**52**	**324**	**1,130**
Exchange adjustments	**(43)**	**–**	**(8)**	**(51)**
Business combination (Note 29)	**–**	**374**	**27**	**401**
Disposal of a subsidiary (Note 30)	**–**	**–**	**(4)**	**(4)**
At 31 December 2016	**711**	**426**	**339**	**1,476**
Accumulated amortisation and impairment:				
At 1 January 2016	**185**	**5**	**74**	**264**
Exchange adjustments	**(11)**	**–**	**(2)**	**(13)**
Charge for the year (Note *(ii)*)	**16**	**18**	**35**	**69**
Impairment loss	**5**	**–**	**1**	**6**
Disposal of a subsidiary (Note 30)	**–**	**–**	**(4)**	**(4)**
At 31 December 2016	**195**	**23**	**104**	**322**
Net book value:				
At 31 December 2016	**516**	**403**	**235**	**1,154**

15. INTANGIBLE ASSETS (CONTINUED)

HK$ million	Car dealerships	Supplier relationship	Others (Note *(i)*)	Total
Cost:				
At 1 January 2015	769	–	257	1,026
Exchange adjustments	(43)	–	(8)	(51)
Business combination	28	52	75	155
At 31 December 2015	754	52	324	1,130
Accumulated amortisation and impairment:				
At 1 January 2015	179	–	43	222
Exchange adjustments	(11)	–	(1)	(12)
Charge for the year (Note *(ii)*)	17	5	32	54
At 31 December 2015	185	5	74	264
Net book value:				
At 31 December 2015	569	47	250	866

Notes:

(i) Others mainly comprise customer relationship and trademarks.

(ii) The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

16. GOODWILL

HK$ million	**2016**	2015
Cost:		
At 1 January	**668**	390
Exchange adjustments	**(3)**	(4)
Business combination (Note 29)	**1,775**	282
At 31 December	**2,440**	668
Accumulated impairment:		
At 1 January	**32**	32
Impairment loss	**5**	–
At 31 December	**37**	32
Carrying amount:		
At 31 December	**2,403**	636

Impairment tests for goodwill

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

HK$ million		**2016**	2015
Motor and Motor Related Business	– Mainland China	**146**	152
Food and Consumer Products Business	– Hong Kong & Macao	**481**	481
	– Mainland China	**1**	3
LFA Business		**1,775**	–
		2,403	636

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections, which are prepared on the basis of reasonable assumptions reflective of prevailing and future market conditions, and are discounted using pre-tax discount rates ranging from 8% to 10% (2015: 13% to 16%).

17. INTERESTS IN ASSOCIATES

The following entities are the principal associates of the Group. To give details of all other associates would, in the opinion of the directors, result in particulars of excessive length.

Name of associates	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held	Principal activities
Lubritech International Holdings Limited ("Lubritech") (Note)	Hong Kong	HK$205,500,000	40.00	Investment holding
CJ DCH Guangdong Frozen Food Co., Ltd.	PRC	US$11,300,000	40.00	Production and sales of quick frozen food
Otsuka Sims (Guangdong) Beverage Co., Ltd.	PRC	US$32,000,000	40.00	Production of beverage

Note:

Lubritech and its subsidiary are engaged in the business of blending and distribution of lubrication oil in mainland China.

During the year ended 31 December 2016, the Group disposed of its entire 26.04% interest in Shanghai Shineway DCH Co., Ltd. ("Shanghai Shineway") at a consideration of RMB208 million (equivalent to approximately HK$241 million). Shanghai Shineway is mainly engaged in the production and sales of meat and related food products in mainland China. The transaction resulted in a net gain on disposal of HK$89 million (Note 6).

Each individual associate does not have a significant financial impact on the Group's results and financial position. Aggregate financial information of associates that are individually immaterial is as follows:

HK$ million	**2016**	2015
Carrying amount in the consolidated financial statements	**175**	350
The Group's effective share of those associates':		
Profit for the year	**11**	23
Other comprehensive loss	**(22)**	(21)
Total comprehensive (loss) / income	**(11)**	2

18. INTERESTS IN JOINT VENTURES

The following entities are the principal joint ventures of the Group. To give details of all other joint ventures would, in the opinion of the directors, result in particulars of excessive length.

Name of joint ventures	Place of establishment / operation	Paid-up capital	Effective percentage of equity interest held	Principal activities
COSCO-DCH (Beijing) Motor Services Co., Ltd.	PRC	RMB170,000,000	50.00	Motor vehicle leasing
DAS Nordisk Phoenix Aviation Equipment Limited	PRC	RMB4,000,000	24.50	Manufacturing 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)	PRC	RMB28,000,000	50.00	Property investment
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)	PRC	RMB19,220,000	50.00	Sales of used motor vehicles and provision of after sales services
廣東日產汽車貿易有限公司 (Guangdong Nissan Motor Trading Co., Ltd.) (Note)	PRC	RMB10,000,000	50.00	Motor vehicle distributor and provision of after sales services

Note:
The official name of the company is in Chinese and the English translation is for reference only.

18. INTERESTS IN JOINT VENTURES (CONTINUED)

Each individual joint venture does not have a significant financial impact on the Group's results and financial position. Aggregate financial information of joint ventures that are individually immaterial is as follows:

HK$ million	**2016**	2015
Carrying amount in the consolidated financial statements:		
– share of net assets and goodwill	**193**	190
– amounts due from joint ventures (Note)	**171**	221
The Group's effective share of those joint ventures':		
Profit for the year	**19**	12
Other comprehensive loss	**(15)**	(12)
Total comprehensive income	**4**	–

Note:

The amounts due from joint ventures are unsecured, not expected to be recoverable within one year and non-interest bearing, except for an amount of HK$34 million (2015: HK$60 million) which is interest bearing at 3% per annum as at 31 December 2015 and 2016.

The recoverability of the amounts due from joint ventures had been assessed at the end of the reporting period. Based on the assessment, provision for impairment losses of HK$60 million was recognised at 31 December 2016 (2015: HK$49 million).

The Group set up several joint ventures with a joint venture partner to operate car dealerships and motor related businesses in southern China ("Joint Ventures"). Since late 2015, there have been several disputes between certain subsidiaries of the Group, the joint venture partner and certain Joint Ventures.

A subsidiary of the Group has filed a court application to request settlement of RMB20 million (equivalent to approximately HK$22 million) due from a Joint Venture. The directors of the Company assessed that the amount was partially recoverable and a provision of RMB10 million (equivalent to approximately HK$11 million) was made as at 31 December 2016. On the other hand, a Joint Venture made claims for settlement of rental disputes against certain subsidiaries of the Group amounting to approximately RMB18 million (equivalent to approximately HK$20 million). Based on management's estimate, the Group had made provision on disputed rental of HK$20 million as at 31 December 2016 (2015: HK$20 million).

19. OTHER NON-CURRENT ASSETS

HK$ million	Note	**2016**	2015
Finance lease receivables	22	**352**	48
Prepaid long term assets		**70**	38
Trade debtors	22	**39**	–
Held-to-maturity debt securities – unlisted		**3**	–
		464	86

20. INVENTORIES

(a) Inventories in the consolidated statement of financial position represent:

(i) 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

(ii) 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

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

HK$ million	**2016**	2015
Carrying amount of inventories sold	**38,982**	37,713
Write-down of inventories	**159**	83
Reversal of write-down of inventories	**(37)**	(16)
Total	**39,104**	37,780

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.

21. 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 following the Group's plan to dispose of the property in October 2016. The property was revalued with a fair value of HK$366 million at 31 December 2016 (see Note 13(f)). 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.

22. TRADE DEBTORS AND OTHER RECEIVABLES

HK$ million	Note	**2016**	2015
Trade debtors and bills receivable		**4,714**	3,023
Less: provision for impairment of trade debtors	22(b)	**(89)**	(50)
		4,625	2,973
Other receivables, deposits and prepayments		**3,129**	3,273
Finance lease receivables	22(d)	**567**	75
Gross amount due from customers for contract work	22(e)	**7**	2
Amounts due from fellow subsidiaries	22(f)	**1**	1
Amounts due from associates	22(f)	**5**	6
Amounts due from holders of non-controlling interests	22(f)	**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

Apart from certain trade debtors and other receivables at 31 December 2016 of HK$206 million (2015: HK$106 million), all the amounts of trade debtors and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

The ageing analysis of trade debtors and bills receivable based on the invoice date (net of provision for impairment of trade debtors) is as follows:

HK$ million	**2016**	2015
Within 3 months	**4,121**	2,785
More than 3 months but within 1 year	**423**	141
Over 1 year	**81**	47
At 31 December	**4,625**	2,973

22. TRADE DEBTORS AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis (continued)

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

(b) Impairment of trade debtors

Certain trade debtors were in financial difficulties and individually determined to be impaired. The movement in the provision for impairment of these trade debtors during the year is as follows:

HK$ million	**2016**	2015
At 1 January	**50**	55
Exchange adjustments	**(2)**	(3)
Business combination	**24**	–
Net impairment loss recognised	**57**	8
Uncollectible amounts written off	**(40)**	(10)
At 31 December	**89**	50

(c) Trade debtors that are not impaired

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

Certain trade debtors with a carrying amount of HK$430 million at 31 December 2016 (2015: HK$281 million) were past due over one month at the end of the reporting period but not impaired. These relate to a number of individual customers for whom there was no recent history of default. The ageing analysis of these trade debtors is as follows:

HK$ million	**2016**	2015
Overdue for more than 1 month but within 3 months	**235**	155
Overdue for more than 3 months but within 1 year	**178**	101
Overdue over 1 year	**17**	25
At 31 December	**430**	281

22. TRADE DEBTORS AND OTHER RECEIVABLES (CONTINUED)

(d) Finance lease receivables

Finance lease receivables mainly represent net investment in the leasing of motor vehicles under finance leases. The contracts run for an initial period of 1 to 8 years. The total minimum lease payments receivable under finance leases and their present values are as follows:

2016

HK$ million	**Present value of the minimum lease payments**	**Total minimum lease payments**
Within 1 year	**215**	**255**
After 1 year but within 5 years	**352**	**378**
Unrealised future income on finance leases	**–**	**(66)**
Net investment in finance leases	**567**	**567**

2015

HK$ million	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	27	32
After 1 year but within 5 years	47	51
After 5 years	1	1
Unrealised future income on finance leases	–	(9)
Net investment in finance leases	75	75

22. TRADE DEBTORS AND OTHER RECEIVABLES (CONTINUED)

(e) Construction contracts

HK$ million	**2016**	2015
Contract costs incurred plus profits less losses	**135**	121
Progress billings	**(137)**	(128)
At 31 December	**(2)**	(7)
Representing:		
Gross amount due from customers for contract work	**7**	2
Gross amount due to customers for contract work (Note 25)	**(9)**	(9)
At 31 December	**(2)**	(7)

The gross amounts due from / to customers for contract work are expected to be recovered / settled within one year.

(f) The amounts due from fellow subsidiaries, associates and amounts due from holders of non-controlling interests are unsecured, non-interest bearing and recoverable on demand, except for an amount due from an associate of HK$5 million which is interest bearing at 4.8% per annum as at 31 December 2015 and 2016 and an amount due from a holder of non-controlling interests of HK$8 million (2015: Nil) which is interest bearing at 2% per annum as at 31 December 2016.

23. CASH AND CASH EQUIVALENTS

The analysis of cash and cash equivalents is as follows:

HK$ million	Note	**2016**	2015
Cash and bank deposits		**1,160**	1,110
Less:			
Pledged deposits	24(d)	**(73)**	(125)
Bank overdrafts	24(b)	**(45)**	(76)
At 31 December		**1,042**	909

Included in cash and cash equivalents, HK$637 million (2015: HK$713 million) are denominated in Renminbi at 31 December 2016. 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.

24. BORROWINGS

HK$ million	Note	2016	2015
Bank loans	24(a) and (b)	**7,223**	6,190
Bank overdrafts	24(a) and (b)	**45**	76
Other loans	24(c)	**156**	284
At 31 December		**7,424**	6,550

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

HK$ million	2016	2015
Within 1 year or on demand	**2,201**	2,171
After 1 year but within 2 years	**1,317**	1,484
After 2 years but within 5 years	**3,750**	2,611
	5,067	4,095
At 31 December	**7,268**	6,266

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

HK$ million	Note	2016	2015
Bank overdrafts			
– unsecured	23	**45**	76
Bank loans			
– secured		**52**	4
– unsecured		**7,171**	6,186
		7,223	6,190
At 31 December		**7,268**	6,266

(c) Other loans are secured by plant and equipment, inventories and other deposits and are repayable within one year or on sales of designated inventories. Certain other loans are also secured by corporate guarantees granted by holders of non-controlling interests for the years ended 31 December 2015 and 2016.

24. BORROWINGS (CONTINUED)

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

HK$ million	Note	**2016**	2015
Inventories		**170**	195
Bank deposits	23	**73**	125
Trade debtors and other receivables		**47**	76
Lease prepayments		**39**	–
Property, plant and equipment		**26**	3
At 31 December		**355**	399

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' financial 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 2015 and 2016, there was no breach of loan agreement terms.

25. TRADE CREDITORS AND OTHER PAYABLES

HK$ million	Note	**2016**	2015
Trade creditors and bills payable	25(a)	**3,889**	1,389
Other payables and accrued charges		**3,663**	2,764
Gross amount due to customers for contract work	22(e)	**9**	9
Amount due to a fellow subsidiary	25(b)	**–**	1
Amounts due to associates	25(b)	**17**	42
Amounts due to joint ventures	25(b)	**10**	10
Amounts due to holders of non-controlling interests	25(b)	**242**	248
Provision for product rectification	25(c)	**71**	61
Derivative financial instruments		**17**	9
At 31 December		**7,918**	4,533

Apart from certain trade creditors and other payables at 31 December 2016 of HK$66 million (2015: HK$66 million), all the amounts of trade creditors and other payables are expected to be settled or recognised as income within one year or are payable on demand.

25. TRADE CREDITORS AND OTHER PAYABLES (CONTINUED)

(a) The ageing analysis of trade creditors and bills payable based on due date is as follows:

HK$ million	**2016**	2015
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
At 31 December	**3,889**	1,389

(b) The amounts due to a fellow subsidiary, associates, joint ventures and holders of non-controlling interests are unsecured, non-interest bearing and repayable on demand, except for an amount due to a holder of non-controlling interests of HK$23 million (2015: HK$23 million) which is interest bearing at 2% per annum as at 31 December 2015 and 2016.

(c) Provision for product rectification

The movement of provision for product rectification is as follows:

HK$ million	**2016**	2015
At 1 January	**61**	43
Exchange adjustments	**(1)**	–
Business combination	**–**	3
Additional provision made	**46**	40
Reversal of provision	**(6)**	(3)
Provision utilised	**(29)**	(22)
At 31 December	**71**	61

Under the terms of certain sales agreements with customers and service agreements with 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 estimates of the expected settlements under these agreements in respect of sales made prior to the end of the reporting period. The amount of provision takes into account the recent claim experience and provision is only made where it is probable that an outflow of resources will be required to settle the claim.

26. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities recognised

The components of deferred tax (assets) / liabilities recognised in the consolidated statement of financial position 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	Tax losses	Undistributed profits	Others	Total
At 1 January 2015	45	106	57	(64)	14	22	180
Exchange adjustments	–	(5)	(2)	4	–	(3)	(6)
Business combination	–	28	–	–	–	–	28
Charged / (credited) to the consolidated statement of profit or loss (Note 8(a))	2	(8)	4	(80)	1	24	(57)
At 31 December 2015	47	121	59	(140)	15	43	145
At 1 January 2016	**47**	**121**	**59**	**(140)**	**15**	**43**	**145**
Exchange adjustments	**–**	**(6)**	**–**	**6**	**–**	**(3)**	**(3)**
Business combination (Note 29)	**27**	**86**	**–**	**–**	**–**	**–**	**113**
Disposal of a subsidiary (Note 30)	**–**	**(20)**	**(3)**	**–**	**–**	**–**	**(23)**
Charged / (credited) to the consolidated statement of profit or loss (Note 8(a))	**2**	**(12)**	**66**	**71**	**12**	**(56)**	**83**
Charged / (credited) to other comprehensive income	**–**	**–**	**7**	**–**	**–**	**(2)**	**5**
At 31 December 2016	**76**	**169**	**129**	**(63)**	**27**	**(18)**	**320**

Represented by:

HK$ million	**2016**	2015
Deferred tax assets	**(102)**	(115)
Deferred tax liabilities	**422**	260
	320	145

26. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Deferred tax assets not recognised

At 31 December 2016, the Group had not recognised deferred tax assets in respect of the cumulative tax losses of HK$2,805 million (2015: HK$2,248 million) and temporary differences of HK$61 million (2015: HK$21 million) as utilisation of them may not be probable. Tax losses in certain tax jurisdictions of HK$2,110 million (2015: HK$1,654 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 2016, there were temporary differences of HK$3,945 million (2015: HK$3,921 million) related to the undistributed profits of subsidiaries. Deferred tax liabilities of HK$209 million (2015: HK$196 million) have not been recognised in respect of the tax payable upon the distribution of these undistributed profits to Hong Kong. The Company controls the dividend policy of these subsidiaries and it has been determined that these undistributed profits will not be distributed to Hong Kong in the foreseeable future.

27. CAPITAL AND RESERVES

(a) 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.

(b) General reserve

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

For the subsidiaries in mainland China, pursuant to the relevant rules and regulations, the general reserve 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) Adjustments arising from change in equity interest in a subsidiary that do not result in a loss of control are included in the general reserve.

27. CAPITAL AND RESERVES (CONTINUED)

(b) General reserve (continued)

(iii) During the year ended 31 December 2016, the general reserve was credited by HK$22 million in respect of tax indemnity from an intermediate holding company (Note 8(a)*(i)*) and was debited by HK$18 million for the fair value adjustment on put option written on non-controlling interest (Note 31(e)*(ii)*). During the year ended 31 December 2015, statutory surplus reserve of HK$4 million was transferred to general reserve following a subsidiary changed from a domestic enterprise to a wholly foreign owned enterprise.

(c) Capital reserve

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

(d) 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.

(e) Merger reserve

The merger reserve represents the amount of consideration paid to CITIC Limited, an intermediate holding company of the Company, in excess of the share capital of the subsidiaries acquired from CITIC Limited.

(f) Share option reserve

The share option reserve comprises the fair value of unexercised share options granted to employees, officers or directors of the Company or any of its subsidiaries under the Company's share option scheme.

(g) 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 as well as the effective portion of any foreign exchange differences arising from hedge of the net investment in a foreign operation (Notes 1(h)*(ii)* and 1(aa)).

(h) Asset revaluation reserve

The asset revaluation reserve comprises the changes arising from the revaluation of properties held for own use, upon transfer to investment properties.

(i) Hedging reserve

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

27. CAPITAL AND RESERVES (CONTINUED)

(j) Distributable reserves

The distributable reserves of the Company at 31 December 2016 were HK$4,040 million (2015: HK$3,284 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 and prior years, the Group monitors its capital structure by reference to the net gearing ratio which 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.

The net gearing ratios at 31 December 2015 and 2016 are as follows:

HK$ million	Note	**2016**	2015
Total borrowings	24	**7,424**	6,550
Less: cash and bank deposits	23	**(1,160)**	(1,110)
Net debt		**6,264**	5,440
Shareholders' funds		**8,732**	9,047
Total capital		**14,996**	14,487
Net gearing ratio		**41.8%**	37.6%

28. EQUITY COMPENSATION BENEFITS

The Company adopted the Share Option Scheme ("Scheme") on 28 September 2007 under which the board of the Company may offer share options to any employee, officer or director of the Company or any of its subsidiaries to subscribe for the Company's shares on payment of a consideration of HK$1 from each grantee for acceptance of the offer. Each option entitles the holder to subscribe for one ordinary share in the Company. All share options granted under the Scheme are exercisable in whole or in part within 5 years from the date of grant.

28. EQUITY COMPENSATION BENEFITS (CONTINUED)

Date of grant	Note	Number of share options granted	Exercise price per share HK$	Number of share options outstanding at 31 December 2016	2015
7 July 2010	*(i)*	23,400,000	4.766	**–**	–
8 June 2012	*(ii)*	24,450,000	7.400	**21,100,000**	22,200,000
30 April 2014	*(iii)*	28,200,000	4.930	**24,500,000**	25,900,000

Notes:

(i) Share options were fully vested on the date of grant. All the outstanding share options were expired and lapsed on 6 July 2015.

(ii) Out of the 24,450,000 share options granted, 24,250,000 options were accepted and 200,000 were not as at the latest date of acceptance pursuant to the Scheme rules (i.e. 5 July 2012). Share options are vested in three batches with 25%, 25% and 50% of the share options granted, respectively, on the first, second and third anniversary of the date of grant.

(iii) Out of the 28,200,000 share options granted, 27,850,000 options were accepted and 350,000 were not as at the latest date of acceptance pursuant to the Scheme rules (i.e. 28 May 2014). Share options are vested in three batches with 25%, 25% and 50% of the share options granted, respectively, on the first, second and third anniversary of the date of grant.

The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price per share HK$	**Number of share options ('000)**	Weighted average exercise price per share HK$	Number of share options ('000)
Outstanding at 1 January	**6.070**	**48,100**	5.916	57,090
Exercised during the year	**–**	**–**	4.766	(140)
Lapsed during the year	**6.017**	**(2,500)**	5.100	(8,850)
Outstanding at 31 December	**6.073**	**45,600**	6.070	48,100
Exercisable at 31 December	**6.395**	**35,575**	6.770	29,800

The weighted average share price at the date of exercise of the share options during 2015 was HK$5.059.

The share options outstanding at 31 December 2016 are with a weighted average remaining life of 1.5 years (2015: 2.5 years).

29. BUSINESS COMBINATION

On 3 May 2016, the Group entered into a sale and purchase agreement to acquire 100% equity interest in LF Distribution Holding 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.

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

HK$ million	**LFA Business**
Property, plant and equipment (Note 13(a))	**243**
Lease prepayments (Note 14)	**69**
Intangible assets (Note 15)	**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 (Note 26(a))	**(113)**
Fair value of net assets acquired	**850**
Goodwill (Note 16)	**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**

29. BUSINESS COMBINATION (CONTINUED)

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.

30. 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 (Note 13(a))	**114**
Investment properties (Note 13(a))	**34**
Lease prepayments (Note 14)	**75**
Trade debtors and other receivables	**1**
Cash and bank deposits	**6**
Trade creditors and other payables	**(5)**
Deferred tax liabilities (Note 26(a))	**(23)**
Net assets disposed of	**202**
Release of reserve	**15**
Expenses incurred for disposal	**6**
Gain on disposal	**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

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises 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 debtors 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 debtors 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 locations. 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.

Except for the financial guarantees as set out in note 33, the Group does not provide any other guarantee which would expose the Group to credit risk.

(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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

The table below analyses the Group's financial liabilities that will be settled based on the remaining periods at the end of the reporting period to the contractual maturity dates. 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 end of the reporting period):

2016

HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	Over 5 years	Total
Borrowings	(2,506)	(1,423)	(3,880)	–	(7,809)
Trade creditors and other payables	(6,416)	(41)	(25)	–	(6,482)
Other non-current liabilities	–	(34)	(42)	–	(76)
Put option written on non-controlling interest	–	(176)	–	–	(176)
	(8,922)	(1,674)	(3,947)	–	(14,543)
Derivatives settled gross:					
Foreign currency forward contracts					
– outflow	(561)	–	–	–	(561)
– inflow	549	–	–	–	549
	(12)	–	–	–	(12)
Financial guarantees issued:					
Maximum amount guaranteed (Note 33(a))	(33)	–	–	–	(33)

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

2015

HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	Over 5 years	Total
Borrowings	(2,591)	(1,596)	(2,719)	–	(6,906)
Trade creditors and other payables	(3,157)	(2)	(58)	(6)	(3,223)
Other non-current liabilities	–	–	(42)	–	(42)
Put option written on non-controlling interest	–	–	(158)	–	(158)
	(5,748)	(1,598)	(2,977)	(6)	(10,329)
Derivatives settled gross:					
Foreign currency forward contracts					
– outflow	(350)	–	–	–	(350)
– inflow	348	–	–	–	348
	(2)	–	–	–	(2)
Financial guarantees issued:					
Maximum amount guaranteed (Note 33(a))	(18)	(8)	–	–	(26)

(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. Interest rate swap, forward rate agreement, cross currency swap and other instruments may be employed to hedge exposures or to modify the interest rate characteristics of the Group's borrowings, if necessary.

At 31 December 2016, the Group had outstanding interest rate swaps with a notional contract amount of HK$1,588 million (2015: HK$1,720 million) to reduce the impact of interest rate fluctuation on the unsecured bank borrowings. The swaps will mature within 2017 to 2019 (2015: within 2016 to 2018) and have effective interest rates ranging from 1.91% to 3.33% per annum (2015: 2.66% to 3.59% per annum).

At 31 December 2016, the Group recognised the fair value of outstanding interest rate swaps of HK$10 million assets (2015: HK$6 million liabilities) as derivative financial instruments.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

Sensitivity analysis

At 31 December 2016, 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$52 million (2015: HK$29 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 end of the reporting period and had been applied to the exposure to interest rate risk for the financial instruments in existence at that date. The analysis is performed on the same basis for 2015.

(d) Currency risk

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. Certain of these foreign currency forward contracts are designated as cash flow hedge. All of the foreign currency forward contracts have maturities of less than one year after the end of the reporting period. At 31 December 2016, the Group had foreign currency forward contracts hedging forecast transactions with a net fair value of HK$12 million liabilities (2015: HK$1 million liabilities) recognised as derivative financial instruments.

Except for the borrowings designated to hedge the net investment in a foreign operation (as described below), bank borrowings are generally matched with the functional currency of each operating entity. Given these, management does not expect any significant foreign currency risk associated with the Group's borrowings.

Certain bank borrowings denominated in Japanese Yen are designated as a hedge of the net investment in a subsidiary in Japan. The carrying amount and the fair value of these bank borrowings at 31 December 2016 was HK$213 million (2015: HK$206 million).

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

The following table details the Group's exposure at the end of the reporting period to foreign 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, except the exposure arising from the bank borrowings that are designated as a hedge of the net investment in a foreign operation is excluded.

2016

in million	United States dollars	Renminbi	Euros	Japanese Yen	Pound Sterling	Hong Kong dollars
Trade debtors and other receivables	26	260	–	42	–	65
Cash and bank deposits	2	3	–	295	–	29
Borrowings	(316)	(150)	(5)	(121)	–	–
Trade creditors and other payables	(54)	(3)	(1)	(174)	(2)	(149)
Net exposure arising from recognised assets and liabilities	(342)	110	(6)	42	(2)	(55)
Highly probable forecast purchases	(10)	–	(10)	(6,643)	(1)	–
Highly probable forecast sales	–	–	–	–	–	–
Foreign currency forward contracts	7	–	7	3,844	1	–
Net exposure arising from forecast transactions	(3)	–	(3)	(2,799)	–	–
Overall net exposure	(345)	110	(9)	(2,757)	(2)	(55)

2015

in million	United States dollars	Renminbi	Euros	Japanese Yen	Pound Sterling	Hong Kong dollars
Trade debtors and other receivables	1	41	–	19	–	9
Cash and bank deposits	4	2	–	265	–	56
Borrowings	(81)	(150)	(5)	–	–	(22)
Trade creditors and other payables	(17)	–	(2)	(228)	(1)	(65)
Net exposure arising from recognised assets and liabilities	(93)	(107)	(7)	56	(1)	(22)
Highly probable forecast purchases	(8)	–	(20)	(5,421)	(2)	–
Highly probable forecast sales	–	–	1	25	–	–
Foreign currency forward contracts	8	–	16	114	1	–
Net exposure arising from forecast transactions	–	–	(3)	(5,282)	(1)	–
Overall net exposure	(93)	(107)	(10)	(5,226)	(2)	(22)

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

Sensitivity analysis

The following table indicates the positive / (negative) effect on profit after taxation and retained profits assuming a general increase of 5% in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period:

HK$ million	**2016**	2015
Renminbi	**6**	(6)
Euros	**(3)**	(3)
Japanese Yen	**(7)**	(14)
Pound Sterling	**(1)**	(1)

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to foreign currency risk for the financial instruments in existence at that date, and that all other variables, in particular interest rates, remained constant.

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 end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2015.

(e) Fair value

(i) Financial instrument carried at fair value

Fair value hierarchy

The fair value of each financial instrument is categorised across three levels of the "fair value hierarchy" defined in HKFRS 13 *Fair Value Measurement*, 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 unadjusted quoted prices 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 2015 and 2016, the outstanding foreign currency forward contracts and interest rate swaps of the Group fall into Level 2, while the put option written on non-controlling interest arising from acquisition of Gilman Group Limited and Leader Synergy Limited (collectively known as "Gilman Group") during the year ended 31 December 2015 falls into Level 3 and there was no transfer between levels during the year.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value (continued)

(ii) Fair value measurements

The fair values of financial instruments are estimated as the present value of future cash flows, discounted at current market interest rates for similar interest bearing bank borrowings, except for foreign currency forward contracts, interest rates swaps and put option written on non-controlling interest. All financial instruments are carried at amounts not materially different from their fair values at 31 December 2015 and 2016 except for the amounts due from / to fellow subsidiaries, associates, joint ventures and holders of non-controlling interests 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 end of the reporting period.

The fair values of interest rate swaps are the estimated amount that the Group would receive or pay to terminate the swaps at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counter parties.

The fair value of put option written on non-controlling interest is an estimated amount of the put option exercise price which is calculated pursuant to the terms of the share purchase agreement for acquisition of Gilman Group. The fair value measurement requires estimation of post-acquisition profits of Gilman Group and judgement on time value of money. The estimated sales growth rates are the significant unobservable input used in fair value measurement. The estimated sales growth rates range from 3.6% to 11.5% (2015: 3.6% to 8.5%) per annum. The fair value measurement is positively correlated to the sales growth rates of Gilman Group.

32. COMMITMENT

(a) 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
Contracted for		
– Capital expenditures	**267**	95
– Others	**–**	1
At 31 December	**267**	96
Authorised but not contracted for		
– Capital expenditures	**178**	241
At 31 December	**178**	241

32. COMMITMENT (CONTINUED)

(b) Operating lease commitments

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

HK$ million	**2016**	2015
Within 1 year	**754**	693
After 1 year but within 5 years	**1,082**	1,268
After 5 years	**1,082**	1,182
At 31 December	**2,918**	3,143

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

33. CONTINGENT LIABILITIES

(a) The Group has issued the following guarantees to banks in respect of banking facilities granted to and utilised by an associate:

	2016		2015	
HK$ million	**Granted**	**Utilised**	Granted	Utilised
At 31 December	**75**	**33**	75	26

(b) At the end of the reporting period, a subsidiary has issued a guarantee of EUR1.2 million (2015: EUR1.2 million) to a trade creditor of an associate.

(c) At the end of the reporting period, 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 guarantees.

34. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material related party transactions:

(a) Recurring transactions

HK$ million	**2016**	2015
Purchases from associates	**264**	309
Rental expenses to fellow subsidiaries	**215**	198

Note:

Apart from the item disclosed in the Report of the Directors under the section "Continuing Connected Transactions", all the material related party transactions disclosed above did not constitute non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Remuneration for key management personnel

Remuneration for key management personnel included the amounts paid to the Company's directors and senior management as disclosed in notes 9 and 10 respectively. Total remuneration is included in "staff costs" (Note 7(b)).

(c) Operating lease commitments with fellow subsidiaries

Included in note 32(b), there are total future minimum lease payments on properties under non-cancellable operating leases with fellow subsidiaries of CITIC Group which are payable as follows:

HK$ million	**2016**	2015
Within 1 year	**209**	210
After 1 year but within 5 years	**86**	290
At 31 December	**295**	500

(d) Transactions with state-owned enterprises

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

These transactions are conducted in the ordinary course of the Group's businesses on terms comparable to those with independent third parties or other entities that are not state-owned.

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 material related party transactions.

35. HOLDING COMPANIES

At 31 December 2016, the directors considered the ultimate holding company of the Group to be CITIC Group Corporation, a wholly state-owned company established in the People's Republic of China. The intermediate holding company of the Group, CITIC Limited, which is incorporated and listed in Hong Kong, produces financial statements available for public use.

36. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

At 31 December 2016

HK$ million	Note	**2016**	2015
Non-current assets			
Interests in subsidiaries		**10,607**	8,581
		10,607	8,581
Current assets			
Amounts due from subsidiaries		**1,452**	838
Derivative financial instruments		**10**	–
Cash and bank deposits		**3**	14
		1,465	852
Current liabilities			
Borrowings		**1,017**	409
Other payables and accrued charges		**13**	20
Amounts due to subsidiaries		**356**	313
Derivative financial instruments		**–**	6
		1,386	748
Net current assets		**79**	104
Total assets less current liabilities		**10,686**	8,685
Non-current liabilities			
Borrowings		**5,067**	3,846
		5,067	3,846
Net assets		**5,619**	4,839
Capital and reserves	36(a)		
Share capital		**1,477**	1,477
Other reserves		**4,142**	3,362
Total equity		**5,619**	4,839

Approved and authorised for issue by the board of directors on 28 February 2017.

Zhang Jijing
Director

Yip Moon Tong
Director

36. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (CONTINUED)

(a) Movements in components of equity

The components of the Company's equity and the movements during the year are as follows:

HK$ million	Note	Share capital (27(a))	General reserve (27(b))	Share option reserve (27(f))	Retained profits	Total
At 1 January 2015		1,477	–	72	2,839	4,388
Total comprehensive income for the year		–	–	–	668	668
Share-based payments	7(b)	–	–	16	–	16
Lapse of share options		–	–	(10)	10	–
Dividends	11	–	–	–	(233)	(233)
At 31 December 2015		1,477	–	78	3,284	4,839
At 1 January 2016		**1,477**	**–**	**78**	**3,284**	**4,839**
Total comprehensive income for the year		**–**	**–**	**–**	**956**	**956**
Tax indemnity from an intermediate holding company	27(b)*(iii)*	**–**	**22**	**–**	**–**	**22**
Share-based payments	7(b)	**–**	**–**	**6**	**–**	**6**
Lapse of share options		**–**	**–**	**(4)**	**4**	**–**
Dividends	11	**–**	**–**	**–**	**(204)**	**(204)**
At 31 December 2016		**1,477**	**22**	**80**	**4,040**	**5,619**

37. 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 (see Note 21) at a total consideration of JPY5,500.0 million (equivalent to approximately HK$366 million). The disposal was completed on 27 January 2017.

38. 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.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except HKFRS 15 and HKFRS 16.

HKFRS 15, Revenue from contracts with customers

In respect of revenue recognition, the current policy is set out in note 1(x). Under HKFRS 15, revenue from sale of goods or provision of services will be recognised when the customer obtains control of the promised good or service in the contract. Besides, revenue of multiple components in a sales contract may be accounted for separately under HKFRS 15, which may lead to revenue being accelerated or deferred. Management is assessing the impact of the adoption of HKFRS 15 and based on its initial assessment it is expected that its adoption may result in a change of the timing of recognition of revenue. Also, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

HKFRS 16, Leases

In respect of lease accounting for lessees, the current policy is set out in note 1(l). Under HKFRS 16, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As disclosed in note 32(b), at 31 December 2016, the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$2,918 million. Most of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

40. DETAILS OF PRINCIPAL SUBSIDIARIES

The following entities 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 all other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
Bayern Gourmet Food Company Limited		Hong Kong	HK$3,000,000	–	100	Food processing and trading
Dah Chong Hong (China) Limited		Hong Kong	HK$100,000	100	–	Investment holding and provision of management services
Dah Chong Hong (Japan) Limited		Japan	JPY480,000,000	–	100	Import and export of foodstuffs, motor vehicles and garments
Dah Chong Hong, Limited		Hong Kong	HK$50,000,000	100	–	Investment holding; import, retail and export of foodstuffs, electrical appliances and other consumer products
Dah Chong Hong Motors (China) Limited		Hong Kong	HK$40,000,000	–	100	Investment holding
Dah Chong Hong (Motor Leasing) Limited		Hong Kong	HK$100,000	–	100	Motor leasing
Dah Chong Hong (Motor Service Centre) Limited		Hong Kong	HK$200,000	–	100	Motor vehicle repairing service and spare parts trading
DCH Foods (Singapore) Pte. Ltd.		Singapore	SGD3,000,000	–	100	Food trading and distribution
DCH Logistics Company Limited		Hong Kong	HK$100,000	–	100	Warehouse and logistics service
Four Star Company Limited		Macao	MOP$100,000	–	100	Distribution of medical and pharmaceutical products and medical equipment
Gilman Group Limited		Hong Kong	HK$78,505,000	–	70	Trading of electrical appliances and provision of after sales services
Gouriki Property Development Co., Ltd.		Japan	JPY10,000,000	–	100	Property investment
Honest Motors, Limited		Hong Kong	HK$3,000,000	–	100	Motor vehicle distributor

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company: Directly	Effective percentage of equity interest held by the Company: Indirectly	Principal activities
IDS Manufacturing Sdn Bhd		Malaysia	MYR23,000,000	–	100	Manufacturing of pharmaceutical, foods and toiletries products
Kunming Heyun Motor Trading Co., Ltd.	*(i)*	PRC	RMB150,000,000	–	100	Motor vehicle 4S dealership
Kunming Lianya Toyota Motor Sales And Services Co., Ltd	*(i)*	PRC	RMB200,000,000	–	100	Motor vehicle 4S dealership
Leo's Fine Food Company Limited		Hong Kong	HK$1,000,000	–	100	Food processing and trading
LF Asia (Hong Kong) Limited		Hong Kong	HK$146,000,000	–	100	Distribution of consumer and pharmaceutical products
LF Asia (Singapore) Pte. Ltd.		Singapore	Ordinary SGD300,000 Preference SGD68,000	–	100	Distribution of healthcare products
LF Asia (Thailand) Limited		Thailand	Ordinary THB16,000,000 Preference THB5,500,000, 25% paid up	–	100	Distribution of customer and healthcare products
LF Distribution Holding Limited		British Virgin Islands	US$2	–	100	Investment holding
南京利豐英和商貿有限公司 (Nanjing LF Asia Company Limited)	*(i),(vi)*	PRC	US$5,000,000	–	100	Importer, export trading and distribution of general merchandise
Polyfood Food Service Co. Limited		Hong Kong	HK$1,500,000	–	100	Food processing and trading
Premium Motors Limited		Hong Kong	HK$2	–	100	Motor vehicle dealer
Princess Yachts Greater China Limited		Hong Kong	HK$10,000	–	70	Sales and distribution of motor yachts and provision of after-sales services
Regal Motors, Limited		Hong Kong	HK$200,000	–	100	Motor vehicle distributor
Reliance Motors, Limited		Hong Kong	HK$3,000,000	–	100	Motor vehicle distributor

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
Sims Trading Company Limited		Hong Kong	HK$13,098,135	–	100	Wholesaling and distribution of fast moving consumer goods
Taipei Premium Motors Limited		Taiwan	NTD5,000,000	–	100	Motor vehicle 4S dealership
Taipei Triangle Motors Limited		Taiwan	NTD200,000,000	–	100	Motor vehicle distributor
Triangle Auto Pte Ltd		Singapore	SGD3,000,000	–	100	Motor vehicle distributor
Triangle Motors Limited		Hong Kong	HK$3,000,000	–	100	Motor vehicle distributor
Yee Lim Godown & Cold Storage Limited		Hong Kong	HK$1,000,000	–	100	Operation of dry and cold storage godown
Yunnan Zhongchi Motor Sales And Services Co., Ltd.	*(i)*	PRC	RMB200,000,000	–	100	Motor vehicle 4S dealership
重慶市合翹汽車銷售服務有限公司 (Chongqing Heqiao Motors Sale and Service Limited)	*(i),(vi)*	PRC	RMB60,000,000	–	100	Motor vehicle 4S dealership
東莞大昌行深業豐田汽車銷售服務有限公司 (Dongguan DCH Shenye Toyota Motors Sale and Service Co., Ltd)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
佛山市合輝汽車銷售服務有限公司 (Foshan Hehui Motors Sale and Service Limited)	*(vi)*	PRC	RMB230,000,000	–	100	Motor vehicle 4S dealership
佛山駿安豐田汽車銷售服務有限公司 (Foshan Junan Toyota Motors Sale and Service Limited)	*(iii),(v),(vi)*	PRC	RMB10,000,000	–	49	Motor vehicle 4S dealership
大昌三昶(上海)商貿有限公司(Goodwell China Marketing Service Co., Ltd.)	*(i),(vi)*	PRC	RMB20,250,000	–	100	Wholesaling and distribution of fast moving consumer goods
廣東駿佳汽車服務有限公司 (Guangdong Denker Motor Service Company Limited)	*(i),(v),(vi)*	PRC	RMB50,000,000	–	49	Motor vehicle 4S dealership
廣東慎昌貿易有限公司 (Guang Dong Sims Trading Co., Ltd.)	*(i),(vi)*	PRC	RMB25,000,000	–	100	Wholesaling and distribution of fast moving consumer goods

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company: Directly	Effective percentage of equity interest held by the Company: Indirectly	Principal activities
廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited)	*(i),(iii),(v), (vi)*	PRC	RMB30,000,000	–	49	Motor vehicle 4S dealership
廣州合駿汽車貿易有限公司 (Guangzhou Hejun Motors Trading Limited)	*(vi)*	PRC	RMB10,000,000	–	100	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),(iv),(v), (vi)*	PRC	RMB30,000,000	–	27.5	Motor vehicle 4S dealership
廣州駿龍汽車有限公司 (Guangzhou Junlong Motors Limited)	*(i),(v),(vi)*	PRC	RMB12,000,000	–	50	Motor vehicle 4S dealership
湖南駿佳雷克薩斯汽車銷售服務有限公司 (Hunan Junjia Lexus Motors Sale and Service Limited)	*(i),(v),(vi)*	PRC	RMB30,000,000	–	50	Motor vehicle 4S dealership
江門市合宏汽車銷售服務有限公司 (Jiangmen Hehong Motors Sale and Service Limited)	*(vi)*	PRC	RMB160,000,000	–	100	Motor vehicle 4S dealership
江門市怡誠汽車銷售服務有限公司 (Jiangmen Yicheng Motors Sale and Service Limited)	*(i),(vi)*	PRC	RMB50,000,000	–	100	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)	*(i),(vi)*	PRC	RMB50,000,000	–	100	Motor vehicle 4S dealership
柳州市合隆汽車銷售服務有限公司 (Liuzhou Helong Motors Trading Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
上海大昌行經貿有限公司 (Shanghai Dah Chong Hong Trading Ltd.)	*(vi)*	PRC	RMB53,300,000	–	100	Food trading and distribution

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
上海大昌行眾賓汽車銷售服務有限公司 (Shanghai Dah Chong Hong Zhongbin Motors Sale and Service Limited)	*(vi)*	PRC	RMB212,000,000	–	100	Motor vehicle 4S dealership
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)	*(i),(v),(vi)*	PRC	RMB21,500,000	–	50	Motor vehicle 4S dealership
上海慎昌貿易有限公司 (Shanghai Sims Trading Company Limited)	*(i),(vi)*	PRC	RMB25,000,000	–	100	Wholesaling and distribution of fast moving consumer goods
上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited)	*(i),(vi)*	PRC	RMB150,000,000	–	100	Motor vehicle 4S dealership
上海眾泰汽車銷售有限公司 (Shanghai Zhongtai Motor Sales Limited)	*(vi)*	PRC	RMB12,000,000	–	100	Motor vehicle 4S dealership
深圳潮鋒雷克薩斯汽車銷售服務有限公司 (Shenzhen Chaofeng Lexus Motors Sale and Service Limited)	*(i),(vi)*	PRC	RMB30,000,000	–	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.)	*(i),(vi)*	PRC	RMB75,500,000	–	100	Motor vehicle 4S dealership
駿佳行汽車服務（深圳）有限公司 (Shenzhen Junjiaxing Motor Service Limited)	*(i),(v),(vi)*	PRC	RMB20,000,000	–	49	Motor vehicle 4S dealership
深圳市盛業汽車銷售服務有限公司 (Shenzhen Shengye Toyota Motors Sale and Service Limited)	*(vi)*	PRC	RMB12,000,000	–	100	Motor vehicle 4S dealership
深圳市深業東本汽車銷售服務有限公司 (Shenzhen Shenye Dongfeng Honda Motors Sale and Service Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company: Directly	Indirectly	Principal activities
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)	*(vi)*	PRC	RMB90,000,000	–	100	Motor vehicle 4S dealership
深圳市深業汽車貿易有限公司 (Shenzhen Shenye Motors Trading Limited)	*(i),(vi)*	PRC	RMB25,000,000	–	100	Motor vehicle 4S dealership
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)	*(vi)*	PRC	RMB20,000,000	–	100	Motor vehicle 4S dealership
雲南奧昌汽車銷售服務有限公司 (Yunnan Aochang Motors Sale and Service Limited)	*(vi)*	PRC	RMB245,000,000	–	100	Motor vehicle 4S dealership
雲南聯迪汽車服務有限公司 (Yunnan Liandi Motors Service Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
湛江市合榮汽車銷售服務有限公司 (Zhanjiang Herong Motors Sale and Service Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
湛江市駿浩汽車有限公司 (Zhanjiang Junhao Motors Limited)	*(i),(vi)*	PRC	RMB225,000,000	–	100	Motor vehicle 4S dealership
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)	*(vi)*	PRC	RMB6,000,000	–	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)	*(vi)*	PRC	RMB6,000,000	–	100	Motor vehicle 4S dealership

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

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

(ii) The equity interests of this entity are held by a PRC company which has the legal capacity under the regulations to be shareholder 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 or PRC companies 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 PRC laws, 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 power over the OPCOs, with exposure or rights to variable returns from its involvement with the OPCOs and the ability to affect the amount of those returns. Accordingly, the financial results and positions of OPCOs have been consolidated into the Group since their respective dates of establishment or acquisition.

(iii) The Group holds 50% economic interest.

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

(v) The Group has an overriding casting vote at the board meeting of the intermediate holding company of this entity and the Group has power over this entity, with exposure or rights to variable returns from its involvement with this entity and the ability to affect the amount of those returns. Accordingly, it has been accounted for as a subsidiary.

(vi) 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 2016

	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, 2nd, 3rd, 4th and 5th Floors, Front Portion, 11 Mok Cheong Street, Tokwawan, Kowloon, Hong Kong Situated within KIL No.7630	2027	100	773*	Industrial
2.	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*	Shop
3.	Lot No.T7-1, located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, 2nd Storey and Factory No.1, No.10, Jiangyu Road, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	5,161	Office and factory
4.	Shanghai International Automobile City, No.789 Anchi Road, Jiading District, Shanghai, The People's Republic of China	2043	100	3,667	Commercial
5.	Haiwang Hatchery Plant at Haiwang Village, Huinan Town, Pudong New District, Shanghai, The People's Republic of China	2048	100	2,053	Industrial

Major Properties Held by the Group (Continued)

As at 31 December 2016

	Address/Lot no.	Leasehold expiry	Group's interest%	Approximate gross floor area/ Approximate saleable area* (sq. m.)	Existing use
6.	Xing Guang Farm, Xingguang Village, Zhuqiao Town, Pudong New District, Shanghai, The People's Republic of China	2048	100	6,041	Industrial
7.	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
8.	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
9.	Dah Chong No.2 Building, 18-2, Roppongi, 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	1,515	Commercial/ office
10.	Land No.346-22, Azateradani, Hino-Cho, Nishiwaki-shi, Hyogo Prefecture, Japan	Freehold	100	6,300 (land)	Vacant site
11.	Land No.689, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	509 (land)	Vacant site
12.	Land No.692, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	694 (land)	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
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.	Shops Nos.1 and 2 on Ground Floor, Siu Man Court, 7, 7A and 9 Fort Street, North Point, Hong Kong 51/543rd shares of and in the Remaining Portions of Sections P and Q of IL No.2366 and the Extension thereto	2072	100	213*	Shop

Major Properties Held by the Group (Continued)

As at 31 December 2016

	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	47,299	Logistics and food processing complex
7.	8th Floor, Remex Centre, 42 Wong Chuk Hang Road, Aberdeen, Hong Kong 45/965th shares of and in Aberdeen Inland Lot No.367	2049	100	979	Food processing
8.	Private Car Parking Space No.46 on 4th Floor, Kingley Industrial Building, 33-35 Yip Kan Street, Wong Chuk Hang, Hong Kong 3/9,970th shares of and in Aberdeen Inland Lot No.396	2053	100	1 car parking space	Car parking
9.	Lot No. 2014-11, West of Huan Dao West Road, Hengqin New Area, Zhuhai City, Guangdong Province, The People's Republic of China	2065	100	25,000 (land)	Site for logistics centre

Major Properties Held by the Group (Continued)

As at 31 December 2016

Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area/ Approximate saleable area* (sq. m.)	Existing use
10. Lot No.T7-1, located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, 1st and 3rd Storey, No.10, Jiangyu Road, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	1,219	Storage and office
11. Lot T7-3, No.19, Yingang Avenue, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	12,678	Food processing and warehouse
12. 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	17,715	Food processing, warehouse and office
13. Lot T7-6, No.28, Yinzhou Avenue, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	8,378	Warehouse
14. Lot No.T7-2, Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, No.21, Yingang Avenue, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	6,859	Cold storage, warehouse and food processing centre

Major Properties Held by the Group (Continued)

As at 31 December 2016

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area/ Approximate saleable area* (sq. m.)	Existing use
15.	Lot No.T-10-2, Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, No.2 Fuhuei Road Jhih Yi, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	49,079	Partially developed with logistics centre
16.	Lot No.T-10-2, No.2 Fuhuei Road Jhih Yi, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	9,995	Warehouse
17.	Lot No.T18, Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	10,179	Industrial
18.	No.51 Wanbao South Street, Zhong Cun Jie, Panyu District, Guangzhou City, Guangdong Province, The People's Republic of China	2046	100	6,939	Cold storage and office
19.	No.522 Bailong Road, Yunshan Village, Jinma Town, Guandu District, Kunming, Yunnan Province, The People's Republic of China	2045	100	6,961	4S shop
20.	No.258 Nangang Gong Road, Huinan Town, Pudong New District, Shanghai, The People's Republic of China	2048	100	9,696	Office

Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area/ Approximate saleable area* (sq. m.)	Existing use
21. 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
22. 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	4,053	4S shop
23. (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
24. The southeast corner of Intersection of the No.329 National Road and Tanggong Road, Paojiang Industrial Zone, Yuecheng District, Shaoxing City, Zhejiang Province, The People's Republic of China	2046	100	6,981	4S shop
25. Land No.712-2, Zi Wu Road, Qu Jing City, Yunnan Province, The People's Republic of China	2047	100	3,900	4S shop
26. No.508 Bai Long Road, Liu Jia Ying Village, Jinma Town, Kunming City, Yunnan Province, The People's Republic of China	2048	100	4,608	4S shop

Major Properties Held by the Group (Continued)

As at 31 December 2016

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area/ Approximate saleable area* (sq. m.)	Existing use
27.	9 and 11 She, Lijiatuo, Chi Lung Chuen, Banan District, Chongqing, The People's Republic of China	2047	100	16,904	4S shop
28.	Long Huang Qiao 320 State Road, Shuangqing District, Shaoyang, Hunan Province, The People's Republic of China	2051	100	7,762	4S Shop
29.	Units 1811 to 1813 and Units 1815 to 1816 on 18th Floor, Units 1901 to 1903 and Units 1905 to 1913 and Units 1915 to 1920 on 19th Floor, Units 2001 to 2003 and Units 2005 to 2013 and Units 2015 to 2020 on 20th Floor, Units 2701 to 2703 and Units 2705 to 2713 and Units 2715 to 2720 on 27th Floor, Enterprise Square, No.228 Mei Yuen Road, Shanghai, The People's Republic of China	2048	100	5,369	Office
30.	Carparking Spaces Nos.8, 17, 18, 19, 25, 27, 28, 31, 38, 39, 40 & 41 on Basement 1, Carparking Spaces Nos.91 & 97 on Basement 2, Enterprise Square, No.216 Mei Yuen Road, Shanghai, The People's Republic of China	2048	100	807 (14 car parking spaces)	Car parking
31.	Whole Single Storey Block, No.357 Ji Zhan Road, Shanghai, The People's Republic of China	2056	100	22,109	Warehouse
32.	No.568-36, Erkan Rd., Waipu Dist., Taichung City 43858, Taiwan	Freehold	100	3,494	Factory and office

	Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area/ Approximate saleable area* (sq. m.)	Existing use
33.	Portion of Dah Chong No.2 Building, 18-2, Roppongi 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	903	Office
34.	20 Tuas Avenue 2, Singapore 639451 Lot No.1349 Mukim 7	2041	100	4,841 plus parking area 132	Car showroom, workshop, storage and office
35.	259 Pandan Loop, Singapore 128435 Lot No.4009A (JTC Pte Lot A14379) Mukim 5	2042	100	1,138	Cold storage
36.	Lot 77 & Lot 78, SEDCO Light Industrial Estate, Mile 5 1/2, Off Jalan Tuaran, 88993 Kota Kinabalu, Sabah, Malaysia	2034	60	4,238	Office and warehouse
37.	Lot 79, SEDCO Light Industrial Estate, Mile 5 1/2, Off Jalan Tuaran, 88993 Kota Kinabalu, Sabah, Malaysia	2034	60	2,708	Office and warehouse
38.	Lot B1-B9 & B11 & B12, Karamunting, Jalan Batu Sapi WDT4, Sandakan, Sabah, Malaysia	2881	60	3,114	Office and warehouse
39.	Lot C10 & C11, SEDCO Light Industrial Estate, Mile 2 1/2, Jalan Apas, Tawau, Malaysia	2042	60	2,657	Office and warehouse

Major Properties Held by the Group (Continued)

As at 31 December 2016

Address/Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area/ Approximate saleable area* (sq. m.)	Existing use
40. Premises Nos. C1 & C2, MPL Saguking Warehouse, Wilayah Persekutuan Labuan, Malaysia	2081	60	558	Office and warehouse
41. Lot 1629 Section 64 KTLD, Jalan Kwong Lee Bank, 93450 Kuching, Sarawak, Malaysia	2073	67	2,801	Office and logistics centre
42. Lot 2678 Section 64 KTLD, Jalan Kwong Lee Bank, 93450 Kuching, Sarawak, Malaysia	2073	67	4,356	Office and logistics centre
43. Lot 1894, Block 4, Miri Concession Land District, Piasau Industrial Estate, Miri, Sarawak, Malaysia	2043	67	2,808	Office and logistics centre
44. Lot 722, Block 31, Bintulu Service Industrial Estate, Bintulu Sibiya Road 9, Bintulu, Malaysia	2043	67	2,072	Office and logistics centre
Major Property Held For Sale				
Dah Chong No. 1 Building, 12-6, Roppongi, 3-chome, Minato-ku, Tokyo, Japan	Freehold	100	3,208 plus 36 area for parking	Commercial

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

RATIOS

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

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

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

$$\text{Net gearing ratio} = \frac{\text{Net debt}}{\text{Total capital}}$$

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

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

Corporate Information

Headquarters and Registered Office
8th Floor, DCH Building
20 Kai Cheung Road
Kowloon Bay, Hong Kong
Telephone: 2768 3388
Fax: 2796 8838

Website
www.dch.com.hk contains a description of Dah Chong Hong Holdings Limited's 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
Level 22, Hopewell Centre
183 Queen's Road East
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

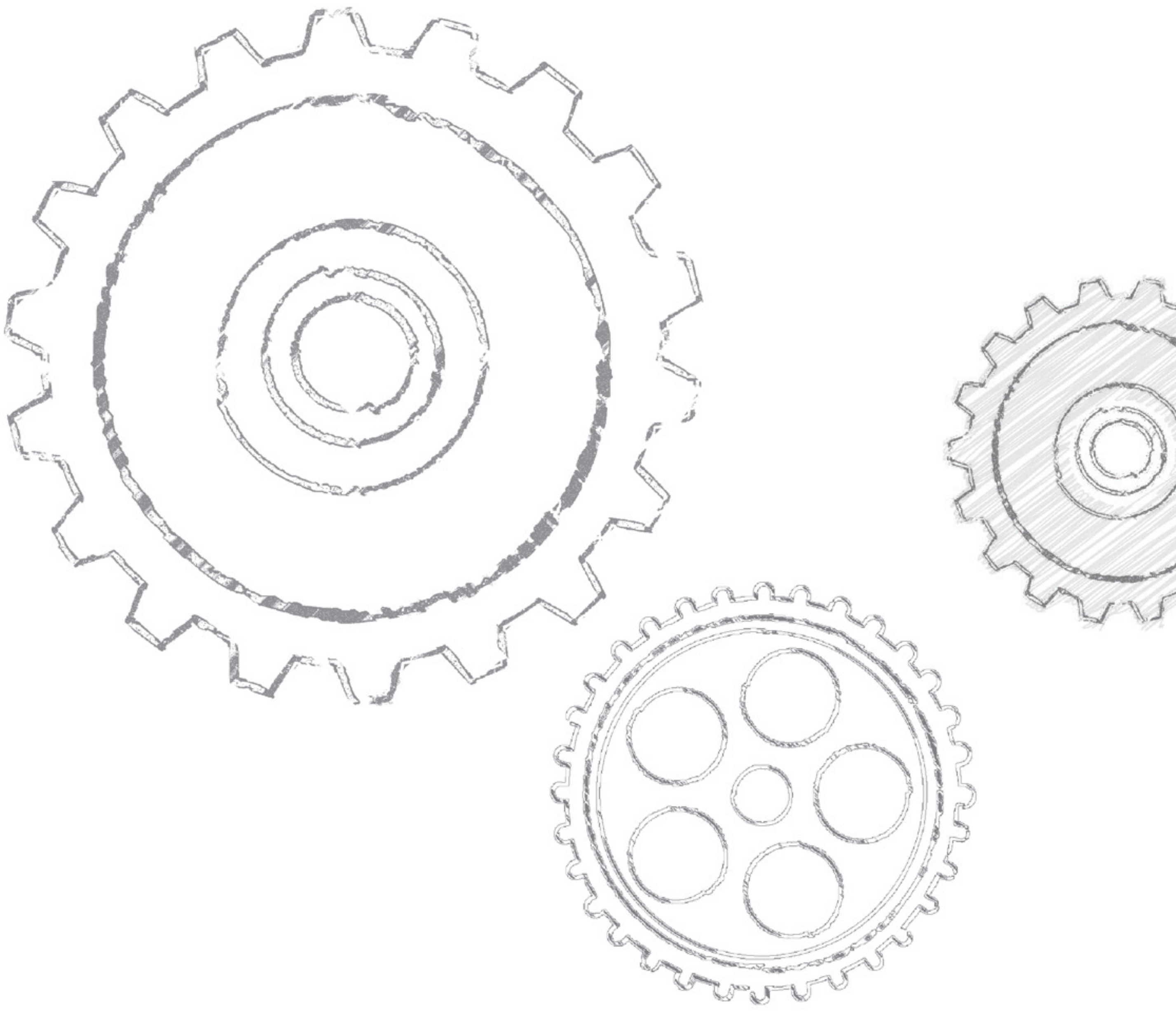
Financial Calendar
Closure of Register for ascertaining shareholders' entitlement to

attend and vote at Annual General Meeting:	17 May 2017 to 22 May 2017
Final Dividend:	29 May 2017 to 31 May 2017
Annual General Meeting:	22 May 2017 10:30 a.m. Grand Ballroom Lobby Level Grand Hyatt Hong Kong 1 Harbour Road Wanchai, Hong Kong
Final Dividend payable:	21 June 2017

Annual Report 2016
Our Annual Report is printed in English and Chinese language and is also available on our website at www.dch.com.hk under the "Investor Relations" section.

Shareholders may choose to rely on the Annual Report posted on the Group's website and 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-registered shareholders wish 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: 2756 5167 or by email: contact@dch.com.hk.



大昌行集團有限公司
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