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

Stock Code: 01828

2017
Annual Report

ABOUT DCH

Dah Chong Hong ("DCH", stock code: 01828) is an integrated motor and consumer products distribution company operating in Asia with an extensive logistics network. DCH is a leading distributor and dealer of motor vehicles in Greater China and provides a full range of motor related services including maintenance, rental, repair and financing. DCH's consumer products business includes the distribution of food and FMCG, healthcare and electronic products as well as food processing, trading and retail.

Dedicated to bringing to quality products to consumers across Asia, DCH is the preferred partner of over 1,000 brands from more than 30 countries with operations in 12 Asian economies. DCH is a subsidiary of China's largest conglomerate CITIC Limited (stock code: 00267), DCH employs over 17,000 staff across the region. For more details, please visit www.dch.com.hk.


Food & FMCG
Healthcare
Electrical
Logistics
Motor
DAH CHONG HONG

Contents

SUMMARY OF THE YEAR

GROUP OVERVIEW

Revenue
$50,506
HK$ million

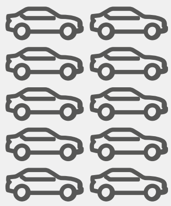
Profit attributable to shareholders
$802
HK$ million

Basic earnings per share
43.71
HK cents

Total dividend per share
16.95
HK cents

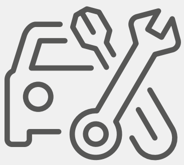
MOTOR BUSINESS

100,000+
New vehicles sold annually

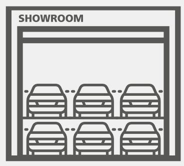


20+
Motor brands

1,000,000+
Vehicles serviced annually



100+
Showrooms and 4S shops



CONSUMER PRODUCTS BUSINESS

1,000+
Brands distributed

80+
Food and electronics shops

75,000+
Points of sales served

40+
Logistics centres

OUR PEOPLE

Employees

17,751

Management by gender

18% *Female*

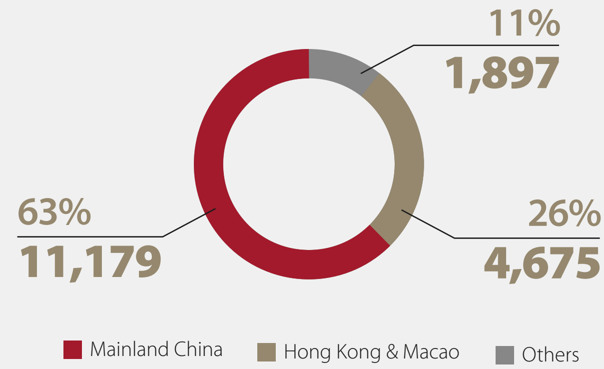
82% *Male*

Workforce by gender

41% *Female*

59% *Male*

Workforce by geography



Training and development

18,000+ *Participants*

140,000+ *Training hours*

OUR LOCATIONS

12 **Asian economies**

COMMUNITY INITIATIVES

50+ **Events**

1,000+ **Volunteers**

5,000+ **Service hours**

RECOGNITIONS

Carbon Audit

10 years+ caringcompany 商界展關懷

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

Green Office

ECO-Healthy WORKPLACE

第八屆香港傑出企業公民獎 優異獎 The 8th HK Outstanding Corporate Citizenship Merit Award 義工隊 Volunteer Team

FINANCIAL HIGHLIGHTS

For the year (HK$ million)	2017	2016
Revenue	**50,506**	46,462
Profit from operations	**1,427**	1,065
Profit attributable to shareholders	**802**	511
Segment profit after taxation Notes		
Motor Business	**1,198**	796
Consumer Products Business	**105**	200
Other Businesses	**45**	66

At year end (HK$ million)	2017	2016
Total debt	**6,927**	7,424
Cash and bank deposits	**1,138**	1,160
Net debt	**5,789**	6,264
Shareholders' funds	**10,145**	8,732
Total capital	**15,934**	14,996
Capital employed	**17,072**	16,156
Net gearing ratio	**36.3%**	41.8%

For the year (HK cents)	2017	2016
Earnings per share	**43.71**	27.89
Dividend per share		
Interim	**5.05**	4.75
Final	**11.90**	3.69
Total	**16.95**	8.44

Notes:

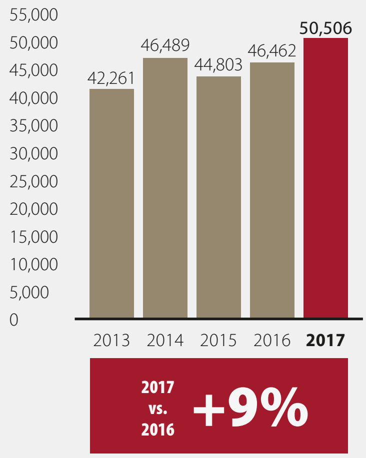
(i) Segment profit after taxation are before corporate expenses and recharges and the corresponding tax impacts.

(ii) As a result of re-alignment of business segments for the purposes of reporting to DCH's senior executive management, segment results from the business as conducted by DCH Auriga Holding Limited (formerly known as LF Distribution Holding Limited) and its subsidiaries acquired on 30 June 2016 have been included in "Consumer Products Business". Its results for July to December 2016 were presented as a separate operating segment in the 2016 annual financial statements.

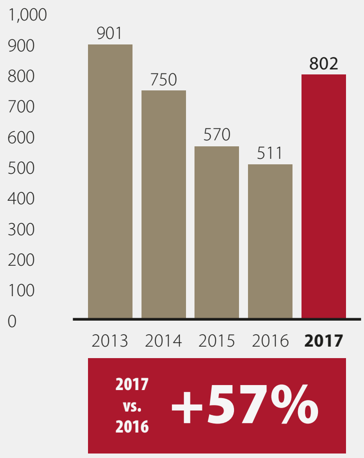
(iii) Comparative figures presented above have been adjusted to conform to current year's presentation.

FINANCIAL HIGHLIGHTS (CONTINUED)

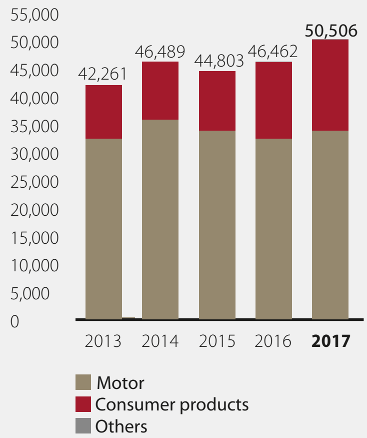
Revenue
(HK$ million)



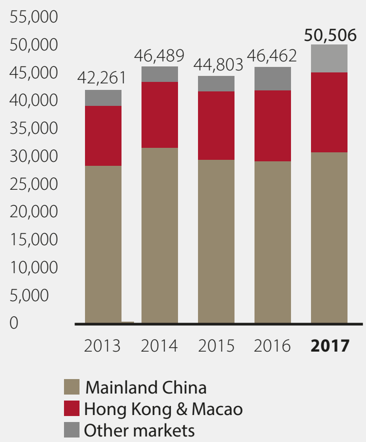
Profit attributable to shareholders
(HK$ million)



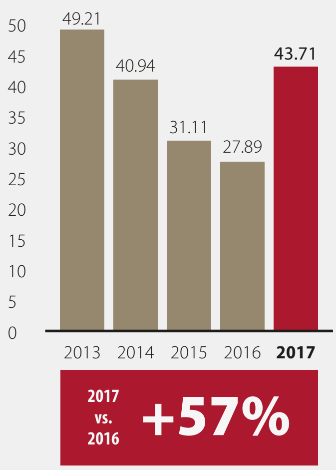
Revenue by business segment
(HK$ million)



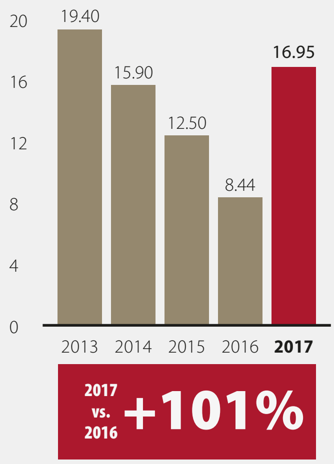
Revenue by geographical location
(HK$ million)



Basic earnings per share
(HK cents)



Total dividend per share
(HK cents)



CHAIRMAN'S LETTER TO SHAREHOLDERS

"Our business is stronger, our opportunity is larger, and our focus is sharper."

Dear Shareholders,

Last year, I shared with you our roadmap for change, outlining our long-term priorities for making Dah Chong Hong a more dynamic business in the future. After a year of implementing these commitments, I am now pleased to share with you what I consider an initial report card.

Where do we stand one year on? Our business is stronger, our opportunity is larger, and our focus is sharper. In this letter, I will detail the milestones of the past year and our near-term priorities. I hope to leave you with a sense of our sustained focus on effecting deep and substantive change and, above all, of the momentum we are building across every level of the business.

Operating Results

For 2017, profit attributable to ordinary shareholders was HK$802 million, representing a solid 57% increase over 2016. Our board recommends a final dividend of 11.90 HK cents per share to shareholders, payable in cash or in new shares, thus giving a total dividend of 16.95 HK cents per share for the year 2017, up from 8.44 HK cents per share in 2016.

The significant growth in profitability was driven primarily by three factors: a marked improvement in the performance of our mainland China motor business, the full-year contribution from LF Asia, and gains from the disposal of non-core assets.

Profit from our motor business rose 51% to HK$1,198 million. The substantial increase was driven by our mainland China operations, which recorded a 213% year-on-year growth in profit as a result of improved margins and greater operating efficiency. In Hong Kong, the impending revision of the electric car tax concession shifted market demand, hence profit fell by 28%.

Profit from the consumer products business was HK$105 million, a 48% reduction from 2016. This was primarily due to losses incurred in our mainland China operations resulting from inventory clearance and promotional discounting during a period of restructuring. Our operations in Hong Kong and Macao also registered a drop in profit as a result of increasing pricing pressure on the commodity food business.

Our market opportunity in mainland China remains large. But the dynamics are shifting fast, and competition is fierce. The reality is, we have been slow to adapt. To remain a player, we urgently need to get our house in order and apply lessons learned from the successful transformation of our mainland China motor division. More stringent control of inventory levels and promotional spending are just two of the immediate actions we will take. We will also finalise our operational restructuring and complete a thorough review of our brand portfolio and channel mix. In 2018, my focus and that of the management team is to restore health to this business.

Corporate Developments

In 2017, we made fundamental changes to how we manage the company. We made some hard decisions, and we have implemented new initiatives. Results are emerging, and we are determined to continue driving the changes to the very core of our businesses as we align our culture with operations to achieve growth.

Building a performance culture

Our top priority is to cultivate a strong performance-oriented culture at every level of our company.

From values and mindset down to incentives, the changes have been profound. One example is the way we are mobilising the front line. We have customised and rolled out a more sophisticated system for setting, measuring and compensating performance among all front line staff. A new KPI matrix and a "super bonus" system incentivise greater unit and cross sales. This is working. It was one of the factors contributing to the more than three-times profit rise registered by our mainland China motor division.

These outcomes bode well for the future. But this is only the beginning.

Improving operational efficiency

Our consumer products business expanded considerably with the addition of LF Asia. Over the course of 2017, we worked to integrate the two organisations to realise synergies in our operations and management structure. More specifically, the food and FMCG business in Greater China has been consolidated into DCH's existing platform and the healthcare business re-positioned and rebranded as DCH Auriga. In the back-office, we aligned systems and administration across the core functions of information technology, human resources and finance. Productivity was enhanced, and operational efficiency improved as a result.

We also optimised resource allocation across quality control, warehousing and logistics. Since April 2017, DCH food manufacturing facilities have been centralised into a single centre at our ISO 22000 and HACCP certified Yuen Long facility. The relocation has facilitated closer coordination, a streamlined work flow, increased efficiency and capacity maximisation while also enabling total transparency and control of an end-to-end supply chain.

Investing in new growth

A performance culture and efficient operations, though critical to our future, are not enough to keep us agile and ahead of emerging trends. For that, we need to make investments and develop in new ways.

In 2017, we made several acquisitions in the motor business. Demand for luxury vehicles is on the rise in mainland China, particularly within lower-tier cities. To increase our exposure to this growing segment, we acquired one Audi and two Mercedes-Benz dealerships, and secured authorisations for three new Mercedes-Benz 4S shops, all within Zhejiang Province of eastern China. Already, our greater presence in the luxury vehicle market is delivering results. In fact, it was a major contributor to the excellent performance of the motors arm. Going forward, we will continue to look for opportunities to expand in this segment.

We are also investing in new infrastructure. Starting from mid-2018, our new DCH Logistics Centre in the Hengqin District of Zhuhai, just across from Macao and at the heart of China's Greater Bay Area, will optimise our distribution reach. This 45,000 square metre site will strengthen our supply chain network in southern China.

In a similar development, we are now finalising plans to build two centralised storage facilities for DCH Auriga, our healthcare business that was rebranded following the LF Asia acquisition. Located in Hong Kong and Thailand, these state-of-the-art facilities will be self-contained, automated and equipped with specialty cold chain storage capabilities. They will shorten delivery cycles down to a matter of hours, minimise human error from the pick and pack process, and facilitate secure full-service solutions for our principals.

Finally, we are investing to create new revenue streams and stronger relationships with principals. Last autumn, together with our parent company CITIC Pacific, we launched the Tamar Alliance Fund, a private equity vehicle focused on consumer and healthcare opportunities expanding across Asia. This new platform enables us to directly capitalise on the brands best positioned to capture the growing consumer demand driven by the increasingly affluent middle class in Greater China and Southeast Asia. It will further align our interests with both existing and future principals as they enter and grow in this dynamic region. This is, as they say, a win-win situation.

Outlook

From day one, thinking from the customer's perspective has been our promise. It has always been the reason brand partners choose us to steward their growth in Asia. It built our business, and it's what we do best. But increasingly, we need to think beyond what customers want today. We need to know what and how they will buy tomorrow. And we must have the internal culture and operational agility to act on those insights and evolve our businesses.

Our energy is renewed, and we have greater purpose. What we have achieved in the last year was no small feat. But we still have many challenges ahead. While competition and complexity are inevitable in our markets, we are now better placed than before to capture the new and growing opportunities throughout Asia.

My goal a year from now is to show sustained momentum in our long-term priorities. I am confident in our capacity to succeed.

Above all, I remain focused on continuing to create value for you, our shareholders as well as all our principals, partners, customers and employees.

Thank you for your support.

Zhang Jijing
Chairman
Hong Kong, 8 March 2018


BUSINESS REVIEW

BUSINESS REVIEW

OVERVIEW

In 2017, Dah Chong Hong Holdings Limited (the "Company", together with its subsidiaries, "DCH" or the "Group") embarked on a path of enhanced operational excellence initiating vigorous measures to restructure the business, improve profitability and prepare a solid foundation for sustainable growth. As a result of these efforts, DCH achieved revenue of HK$50,506 million in 2017 (2016: HK$46,462 million) and an increase of 56.9% in profit attributable to shareholders totaling HK$802 million (2016: HK$511 million).

The mainland China motor business, DCH's largest segment by profit and revenue, was the primary contributor to our strong performance as a result of the successful implementation of profitability enhancement initiatives, an ongoing strategy to increase exposure to the premium vehicle market and the acquisition of premium dealerships in eastern China. As a result, segment revenue for the mainland China motor business increased by 6.8% while segment result from operations more than doubled to HK$888 million (2016: HK$356 million). Segment margin increased to 3.4% from 1.4% in 2016. While revenue from the Hong Kong and Macao motor business was stable, discounting to secure share in a market impacted by changes in government policy resulted in a 23.1% decrease in segment result from operations. With Hong Kong and Macao motor offsetting mainland China motor performance, the overall motor business segment result from operations was an increase of 43.2%.

In June 2016, we expanded our portfolio with the acquisition of the consumer and healthcare distribution business conducted by Integrated Market Services Asia Limited ("IMSA") and DCH Auriga Holding Limited ("DCH Auriga") and its subsidiaries (collectively known as "IMSA and DCH Auriga Group"), which significantly strengthened our food and fast moving consumer goods ("FMCG") distribution business in Hong Kong, introduced a profitable healthcare distribution business and extended our geographical coverage to Southeast Asia. In 2017, DCH focused on integrating the acquisition to achieve operational synergies and rebranded the FMCG and healthcare distribution businesses as IMSA and DCH Auriga, respectively. With the consolidation of a full year of performance results from the acquisition, the overall consumer products business recorded increased revenue of HK$16,408 million (2016: HK$13,831 million). However, segment result from operations fell by 41.5% against 2016 as our restructuring and business enhancement program in the mainland China food business continued.

As part of our growth strategy for the consumer products business, DCH jointly established Tamar Alliance Fund with CITIC Pacific to invest in companies in the consumer and healthcare sectors. The fund enables DCH to capture investment returns from brands serving the growing consumer and healthcare markets of Greater China and Southeast Asia while leveraging our extensive distribution operations and expertise.

In 2017, DCH also implemented company-wide initiatives to streamline the management organisation, strengthen internal controls and reinvigorate corporate culture with performance-driven incentive structures. Recognising agility as a competitive advantage, we have begun to simplify, standardise, and centralise our IT infrastructure with a suite of advanced systems that include enterprise resource planning, business intelligence, warehouse management and customer relationship management. Improved information management will provide seamless connectivity and real time reporting to enable data-based decision making and help management better respond to our dynamic markets.

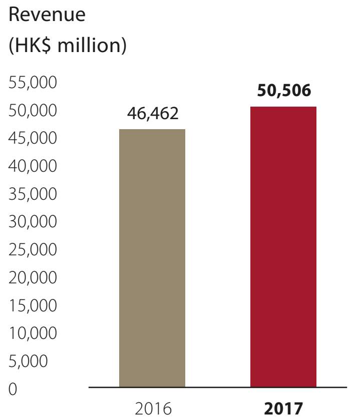
The mainland China motor business represents a significant part of our portfolio and will remain central to our strategy to achieve sustainable growth and profitability. In 2018, we will continue to explore opportunities to expand our dealership network in the premium motor segment, while serving the mass market with promising domestic brands and new energy vehicles. In the consumer products business, agency distribution in Hong Kong will provide a stable foundation and source of expertise as we continue our vigorous agenda of reform and restructuring in mainland China. Lastly, DCH will continue to invest in healthcare distribution to establish the Group as a market leader in Asia's growing healthcare industry.

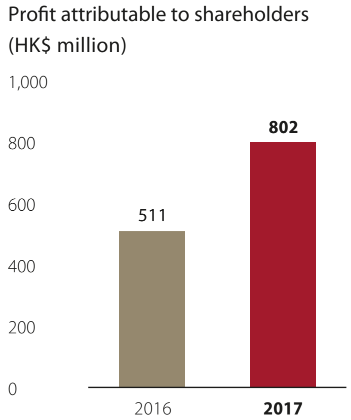
While our results demonstrate a marked improvement over previous years, business enhancement initiatives will continue to be an important focus in 2018. Encouraged by the effectiveness of our wide-reaching reform strategies, we will continue to fortify our businesses portfolio to achieve new levels of operational excellence, reviewing our structure, systems and processes to implement best practices across geographies and business segments. With strengthened core competencies, nearly seven decades of market experience and the support of our parent company, CITIC Limited, DCH will continue on a path of growth and reform with a mandate to pursue performance excellence.

OPERATING RESULTS

For the full-year 2017, revenue was HK$50,506 million (2016: HK$46,462 million) an increase of 8.7% against 2016. This increase was driven by the full year accounting of revenue from the rebranded IMSA and DCH Auriga Group and revenue growth in the mainland China motor business.

Profit attributable to shareholders was HK$802 million (2016: HK$511 million) an increase of 56.9% against 2016 due to successful profitability enhancement measures in the mainland China motor business and the consolidation of a full year of results from IMSA and DCH Auriga Group. At the corporate level, profitability was further enhanced by initiatives to streamline the management hierarchy, the successful implementation of a tax review, the improvement in finance costs through favorable interest rate negotiation and the divestment of non-core assets.





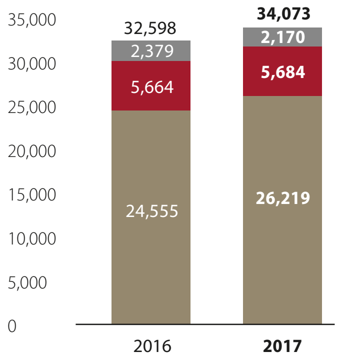
MOTOR BUSINESS

As a dealer and distributor of motor vehicles, DCH represents more than 20 renowned automotive brands with a presence in mainland China, Hong Kong, Macao, Taiwan, Singapore and Myanmar. Leveraging decades of industry expertise, our vehicle sales business is supported by a wide portfolio of motor services in mainland China and Hong Kong including aftersales services, vehicle accessories trading, used car sales, vehicle leasing, motor financing, insurance agency, engineering projects, aviation support operations and the sales of luxury yachts.

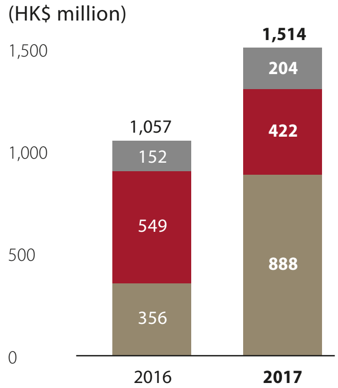
In 2017, segment revenue of the motor business grew by 4.5% to HK$34,073 million (2016: HK$32,598 million) due to the increased sales of premium and luxury vehicles in mainland China and the acquisition of three premium dealerships in eastern China. In Hong Kong and Macao, sales recovered to 2016 levels in the second half of the year as strong model launches offset the impact of government policies including an electrical vehicle subsidy and new diesel requirements. Revenue in the other market segment decreased as a result of the closure of the Taiwan Audi business and reduced demand in Singapore.

Segment result from operations for the motor business was HK$1,514 million (2016: HK$1,057 million) representing a significant increase of 43.2% as a result of successful profitability enhancement initiatives in mainland China which offset a 23.1% decrease in profit in Hong Kong and Macao.

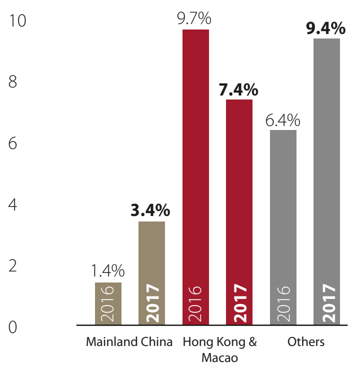
Segment revenue
(HK$ million)



Segment result from operations
(HK$ million)



Segment margin
(%)



Mainland China Hong Kong & Macao Others

Mainland China Hong Kong & Macao Others

Mainland China

DCH is one of the leading automotive dealer and distributors in mainland China with 80 4S shops and 14 showrooms retailing a diverse portfolio of motor brands in 38 cities spanning 13 provinces and municipalities. This year, we were listed as 8th in the top 100 Chinese Auto Dealer Groups by the China Automobile Dealers Association in recognition of our business scale and market achievements.

According to the China Association of Automobile Manufacturers, the mainland China passenger vehicle market grew by 1.4% in 2017 following double digit growth in 2016 incentivised by government tax rebates. However, the sales of premium and luxury vehicles outperformed the overall market, propelled by rising incomes and increasingly sophisticated consumer preferences.

2017 mainland China vehicle sales by unit

	DCH mainland China unit sales			Mainland China market unit sales (000s)		
	2017	2016	Change	**2017**	2016	Change
Passenger cars	**98,763**	95,948	2.9%	**24,720**	24,380	1.4%
Commercial vehicles	**4,418**	4,349	1.6%	**4,160**	3,650	14.0%
Total	**103,181**	100,297	2.9%	**28,880**	28,030	3.0%

Leveraging a favorable brand portfolio of premium European and Japanese brands, DCH unit sales of passenger cars grew above the market average at a rate of 2.9%. Segment revenue grew by 6.8% to HK$26,219 million (2016: HK$24,555 million) in accordance with our ongoing strategy to increase exposure to the growing premium vehicle segment. In July 2017, we strengthened our presence in the strategic Zhejiang Province of eastern China through the acquisition of an Audi and two existing Mercedes-Benz dealerships as well as the authorisations for three new Mercedes-Benz 4S shops. DCH commercial vehicle sales grew by 1.6% as we reviewed opportunities to better structure our commercial vehicle business in mainland China to take advantage of the strong market growth.

Segment result from operations more than doubled at HK$888 million (2016: HK$356 million) with segment margin of 3.4% against 1.4% in 2016. The improved performance is a result of wide ranging measures to improve the motor business. In 2017, DCH continued the implementation of a wide range of business and profitability enhancement measures including vehicle pricing management, inventory controls, effective omni-channel promotional activities, cross-selling programs, performance-based incentives and a focus on customer lifecycle management. The improvement initiatives also include a comprehensive IT upgrade for business management systems and a new customer relationship management ("CRM") system scheduled for implementation in the first quarter of 2018.

In 2017, aftersales services revenue increased by 7.5% and the number of vehicles serviced increased by 5.5% to 1,088,738 units. Commission income from motor financing referrals increased 32.9% and the DCH-owned finance lease portfolio grew by 43.7% to RMB723 million reflecting the growing consumer utilisation of vehicle financing. The auto rental business also delivered solid results after an extension of operations into Nanchang and now extends across 23 cities in mainland China. In 2017, the motor related businesses focused on enhancing the customer experience, streamlining operations, introducing seamless cross-selling programs and conducting staff training to enhance service. In alignment with our long-held strategy to develop service quality as a competitive advantage, DCH established the centralised DCH Motor Academy training program to provide continuous skilled training to our front line staff and repair shop technicians, sharing best practices across our 4S shop network.

Outlook and strategy

To build on the momentum of a successful year, we have outlined three strategic objectives to achieve our long term growth targets in the mainland China motor business.

Optimise the vehicle brand portfolio. In order to enhance profitability and capture market growth opportunities, we will continue to rebalance the motor brand portfolio to increase our exposure to the premium and luxury segments while reviewing opportunities to serve promising domestic brands and new energy vehicles.

Expand the dealership network. In our mid-term development plan, we aim to increase the number of 4S shops and widen our dealership network in mainland China, targeting a balanced portfolio of both premium and mass market brands.

Grow the motor-related business. We will continue to strengthen and grow our motor-related businesses with cross-selling programs, the implementation of value-added services and expansion in the used car trading business, vehicle leasing and auto financing.

Hong Kong and Macao

DCH is the dealer and distributor of more than 13 vehicle brands in Hong Kong and Macao with a wide array of supporting motor related services.

In 2017, the passenger vehicle market in Hong Kong grew by 8.1% year-on-year in unit sales, reflecting a surge in electric and diesel vehicle sales related to the electric vehicle subsidy and new diesel registration requirements. Excluding electric and diesel vehicles, however, the passenger vehicle market in Hong Kong declined by 1.3%. Commercial vehicle unit sales decreased by 1.4% against strong 2016 sales related to ongoing subsidy programs to support new emissions requirements.

2017 Hong Kong and Macao vehicle sales by unit

	DCH Hong Kong & Macao unit sales			Hong Kong market unit sales		
	2017	2016	Change	**2017**	2016	Change
Passenger cars (incl. EV & diesel)	**6,993**	6,737	3.8%	**37,298**	34,490	8.1%
Passenger cars (excl. EV & diesel)	***6,975***	*6,702*	*4.1%*	***29,196***	*29,577*	*-1.3%*
Commercial vehicles	**4,613**	4,564	1.1%	**15,292**	15,502	-1.4%
Total vehicle sales	**11,606**	11,301	2.7%	**52,590**	49,992	5.2%
Total (excl. EV & diesel)	***11,588***	*11,266*	*2.9%*	***44,488***	*45,079*	*-1.3%*

Despite a challenging first half, segment revenue from the Hong Kong and Macao motor business was stable at HK$5,684 million (2016: HK$5,664 million), an increase of 0.4% against 2016. DCH unit sales in Hong Kong and Macao increased by 2.7% with strong second half model launches, strong sales from key commercial vehicle brands and replacement purchases in Macao as the government offered a tax relief program for vehicles damaged by Typhoon Hato. In the commercial vehicle segment, DCH unit sales increased by 1.1% while the overall Hong Kong market fell 1.4% on the basis of a competitive product mix, lead times and service quality built over decades of industry expertise.

Segment result from operations was HK$422 million (2016: HK$549 million), representing a decline of 23.1%. Profitability was impacted by competitive pricing required to secure market share and clear inventory as the electric vehicle incentive pulled demand from similarly priced passenger vehicles and the expiry of the contract for our government-designated commercial vehicle testing centre. Margin was further affected by unfavorable average Yen exchange rates in the first half of the year.

As part of our company-wide objectives to strengthen core competencies and achieve operational excellence, we focused on maximising customer value by improving the customer experience. DCH implemented a wide range of initiatives to improve convenience and comfort with facility and services upgrades in Hong Kong. For example, our aftersales business was able to shorten the average repair turnaround time while motor leasing introduced a new program to offer discounted rental cars for vehicles undergoing maintenance. We undertook measures to leverage our scale as a competitive advantage using our Kowloon Bay headquarters as a convenient sales and service destination while exploring ways to widen service capabilities in our many Hong Kong locations.

In 2017, our motor related business was adversely affected by the contract expiration of our government-designated commercial vehicle testing centre and the rapid expansion of competing passenger car testing centres. Conversely, the Princess Yachts business achieved record high revenue with the delivery of 14 vessels and the first contracted order for the Princess M-class super yacht which is scheduled for delivery in 2019.

Outlook and strategy

The outlook for the Hong Kong and Macao motor business remains positive in 2018 with a strong pipeline of model launches. The Hong Kong motor business will continue to strengthen its operations in a stable market with the following strategic objectives.

Secure market share in the commercial vehicle sector. In 2018, we aim to maintain our leading market position by continuing to support the implementation of new emission standards. Additionally, we will explore opportunities created by the rebound of tourism and opening of the Hong Kong-Zhuhai-Macao bridge to provide coaches and shuttle buses to a wide range of operators.

Improve customer relationship management. In order to maximise the lifetime value of each customer, DCH will adopt a unified CRM platform to improve customer targeting, sales funnel management and conversion rate monitoring. The system will track the customer's needs through the vehicle ownership cycle, enabling us to provide targeted service offerings and timely promotions based on the vehicle and owner profile.

Enhance aftersales and maintenance services. DCH will continue to promote quality and service with initiatives including service centre enhancements, additional car detailing services, shortened vehicle service appointment lead time, reduced vehicle repair turnaround time and extended Saturday and holiday service hours.

Build online-to-offline connectivity. We will amplify promotion effectiveness by strengthening our digital marketing capabilities with an emphasis on online-to-offline connectivity. To enhance customer convenience, we will review opportunities to leverage our extensive network and diverse range of motor services to build effective cross-selling programs and digital services.

Build the motor-related business pipeline. In 2018, we will continue to leverage our motor expertise to provide services for private and public projects, including fleet upgrades, machinery installation and aviation services. For example, DCH has been awarded as the sole operator of ground service equipment (GSE) maintenance services in the Hong Kong Airport Authority's midfield GSE Pooling Scheme for a period of 15 years. DCH will also explore opportunities to partner with the Hong Kong government to support the Hong Kong Smart City program, which aims to enhance smart mobility with intelligent, environmentally-friendly transport systems.

Other markets

The other markets segment of the motor business includes commercial vehicle sales and services in Taiwan, Singapore and Myanmar. In 2017, segment revenue from other markets decreased 8.8% to HK$2,170 million (2016: HK$2,379 million) following the closure of a vehicle dealership in Taiwan and the expiration of diesel replacement incentives in Singapore. Conversely, segment result from operations improved by 34.2% at HK$204 million (2016: HK$152 million) with the streamlined business portfolio offsetting reduced demand in Singapore.

Taiwan

Our Taiwan motor business comprises of the distribution and sales of Isuzu vehicles, assembling semi-knocked down (SKD) models and aftersales services. After a review of our operational profile, we closed our Audi operations in Taiwan which reduced revenue against 2016 while segment result from operations more than doubled. Our commercial vehicle sales outperformed the market due in part to new initiatives to better serve large corporate fleets.

In 2017, we took steps to expand assembly operations and improve service quality. DCH has obtained the license to produce more SKD models in Taiwan to increase product competitiveness and shorten delivery time. Additionally, service centre staff training was upgraded in cooperation with Isuzu to improve technical skills and enhance customer satisfaction.

In 2018, the Taiwan motor business will continue to explore opportunities to expand its portfolio and enhance customer convenience with an emphasis on digital platforms.

Singapore

In Singapore, our motor business includes the distribution of Isuzu commercial vehicles, aftersales services, car leasing and parts trading. In 2017, segment revenue decreased with unit sales due to weakened demand for commercial vehicles following the expiration of a government incentive scheme to encourage the replacement of aged diesel vehicles and a slowdown in infrastructure development. Segment result from operations fell due to reduced sales and strategic inventory clearance in advance of the implementation of Euro VI emission standards.

In 2018, to maintain our market share and profitability, we will focus on enhancing our product and service quality, while launching new models in compliance with the new emission standards.

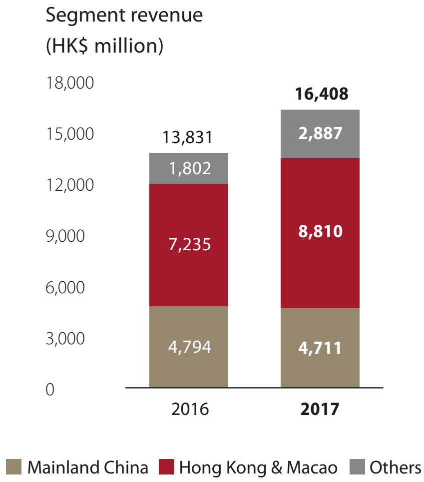
CONSUMER PRODUCTS BUSINESS

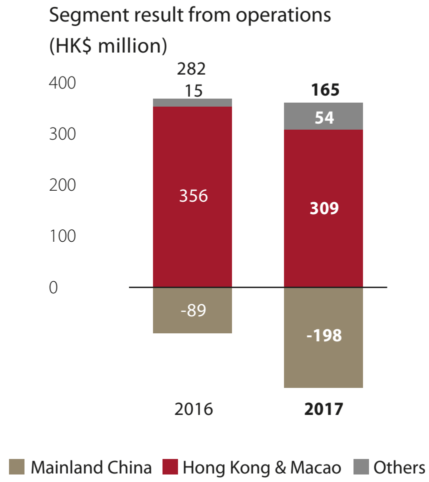
Committed to bringing our customers quality products, DCH distributes and provides supply chain services to over 1,000 brands in a diverse range of product categories including food, FMCG, healthcare and electrical appliances. Our businesses extend across agency distribution, commodity trading, brand development, retail and manufacturing with operations in Hong Kong, mainland China, Macao, Taiwan, Japan, Singapore, Thailand, Malaysia, Indonesia, the Philippines and Brunei.

BUSINESS REVIEW (CONTINUED)

In 2017, segment revenue from the consumer products business increased 18.6% to HK$16,408 million (2016: HK$13,831 million), reflecting the consolidation of a full year of IMSA and DCH Auriga Group results. Segment result from operations was HK$165 million (2016: HK$282 million) a decrease of 41.5% due primarily to the performance of the food and FMCG business in mainland China. Segment result from operations in Hong Kong and Macao decreased by 13.2% as margin pressure affected the profitability of our food commodity trading business, a food manufacturing centre was relocated and our electrical products distribution business was adversely impacted by additional warehousing costs.

With the consolidation of IMSA and DCH Auriga Group, the consumer products business now represents 32.5% of the DCH portfolio by revenue an increase of 2.7 percentage points from 2016. Hong Kong and Macao is the largest segment by region representing 17.4% of total DCH revenue, up from 15.6% in 2016. The other markets segment has also increased from 3.9% to 5.7% of DCH total revenue while the mainland China segment decreased from 10.3% to 9.3%.





Food and FMCG products

Food and FMCG comprises the largest segment of the consumer products business and consists of an extensive FMCG distribution network, commodity trading, food manufacturing and retail. With more than 65 years of operations, DCH represents over 600 food and FMCG brands distributing more than 15,000 products into three geographical segments, Hong Kong and Macao, mainland China and other markets. As our largest segment, Hong Kong is a stable and mature market while mainland China and Southeast Asia represent growth opportunities as we continue to integrate, enhance profitability, increase our scale and rationalise our operational portfolio.

Mainland China

According to the National Bureau of Statistics, the retail grocery market in mainland China increased by 10.2% against 2016 and is forecasted to maintain steady growth with continuing urbanisation and increasing grocery spending per household. While supermarkets and hypermarkets dominate mainland China's grocery industry, online grocery and convenience stores are expected to achieve the highest growth rates as consumer demand for convenience continues to impact shopping patterns. At the same time, the distribution and retail sectors face the ongoing challenges of mainland China's geographical scale, the increasing demand for logistics infrastructure, particularly in cold chain, and evolving consumer preferences.

Segment revenue of the mainland China food and FMCG business decreased 10.2% and recorded higher losses from operations due to reduced sales and inventory clearance in key brands as we continue to implement measures to improve operations and return the business to profitability. In 2017, we undertook a full review of the organisational structure, centralised back office functions and divested loss-making businesses to reduce administration and operating expenses. Management has introduced improved inventory management and balance sheet controls to safeguard profitability while implementing key performance indicators ("KPIs") and encouraging growth through channel expansion and strategic relationships. We are also carefully reviewing the product portfolio to prune under-performing brands while increasing our exposure to growing grocery segments like premium natural and healthy food.

In 2018, we anticipate improvement in the mainland China food and FMCG segment as we implement business reengineering measures to improve performance with initiatives targeting both commercial and supply chain operations. We will continue enforcing tight operation controls, focusing on portfolio optimisation and continued network expansion into profitable tier 2 and tier 3 cities. As a key pillar of our growth strategy, we will additionally explore strategic partnership and merger and acquisition opportunities, particularly in rapidly-developing, non-traditional channels including online grocery.

Hong Kong and Macao

The food and FMCG retail market of Hong Kong faced a challenging year with established retailers prudently managing inventory levels and store portfolios to operate profitability in a low growth market. Our FMCG and food businesses accordingly faced flat market demand compounded by a series of market challenges, including the parallel imports of certain brands, direct sourcing by retail chains and tightened government control on cross border purchases by visitors.

Segment revenue increased by 13.7% with the full year recording of IMSA revenue. On a like-for-like basis excluding IMSA, segment revenue was stable with a slight decrease of 3.4% due to the closure of food retail locations and a temporary production suspension to move food manufacturing operations in Wong Chuk Hang to a consolidated facility in Yuen Long.

Segment result from operations decreased by 14.1% as margin erosion in commodity trading resulted from increased competition and the production relocation in food manufacturing offset the consolidation of the full year IMSA segment result. On a like-for-like basis excluding IMSA, segment result from operations fell 23.0% in 2017.

In the FMCG distribution business, we offer localised marketing and supply chain services to a diversified portfolio of market-leading brands delivering to every major retailer in the market. In 2017, we focused on rebranding and integrating IMSA with existing Hong Kong and Macao distribution businesses, leveraging warehouses, management expertise and delivery systems. The acquisition has significantly enhanced our market share in Hong Kong and we are now the market leader in key categories including biscuits, chocolates, candy and functional beverages.

In 2018, the FMCG distribution business of Hong Kong and Macao will focus on operational and profitability enhancements while reviewing the brand and channel mix to maintain its share in the mature Hong Kong market. Operationally, we aim to improve efficiency with IT system upgrades and reduce logistics costs by realising synergies through business unit collaboration. We will continue to enrich our product portfolio with premium and healthy foods in alignment with changing customer preferences and expand channel coverage into non-traditional channels including pop-up stores, high-end restaurants, specialty retail and e-commerce.

Our food commodity trading business sources over 550 products from more than 30 countries in the frozen and chilled meat and seafood, fresh produce and grocery categories. In 2017, the business remained under the pressure of intensified competition from new entrants and rising commodity prices. To protect profitability and growth, we have actively expanded our premium category with new products including Korean pork, Australian Wagyu beef and hormone-free poultry while promoting channel expansion into high-end retail, catering and fine dining. The Cheer brand, which has grown eight-fold in revenue since 2012, launched new cereal and drinking yogurt products and will continue to develop range extensions, introducing healthier, premium and natural products.

Our Hong Kong and Macao operations also include the processing of premium seafood, meat, coffee and tea. In 2017, our meat and seafood manufacturing operations were consolidated and relocated to the ISO and HACCP certified Yuen Long food manufacturing centre to enhance food safety and realise synergies. In 2018, food manufacturing will continue to focus on production efficiency while expanding its product offering.

In the food retail segment, DCH operates a specialised food retail chain under the Food Mart and Food Mart Deluxe brands which offer quality frozen and chilled groceries, fruit and meat products. In 2017, we rationalised the store portfolio with the closure of non-performing stores while enriching the shopping experience and offering a wider range of premium products in the deluxe stores. In 2018, the food retail business will continue to enhance the customer shopping experience by adopting mobile payment systems in stores and integrating an e-commerce platform to provide seamless online-to-offline connectivity.

Other markets

In Southeast Asia, we distribute a balanced portfolio of food and FMCG products including personal care and household goods with a geographic footprint including Singapore, Taiwan, Thailand, Malaysia, Indonesia, Brunei, Japan and the Philippines. In 2017, the other markets food and FMCG business grew 37.1% by revenue with the full year consolidation of IMSA.

DCH also operates a food contract manufacturing plant in Malaysia which offers regional production for snacks and beverages to international brands. In 2017, the factory increased its production capacity with new production lines and upgraded equipment, generating satisfactory revenue and profit. In the year ahead, we will continue to enhance operational efficiency while leveraging regional and local expertise to attract new principals and capture opportunities to produce for Southeast Asia.

Logistics Solutions

Our logistics solutions business operates logistics centres, warehouses and fleets providing comprehensive supply chain solutions to internal and external customers and a distinctive competitive advantage for our trading and distribution businesses. Our extensive supply chain network encompasses over 700,000 square metres of logistics facilities in mainland China, Hong Kong and Macao providing warehousing, transportation, freight forwarding, cold chain logistics, processing and repacking services.

While segment revenue was stable in 2017, segment result from operations increased on a like-for-like basis due to ongoing restructuring and consolidation in mainland China. This year, we focused on implementing initiatives to better utilise and expand infrastructure, develop high-demand cold chain capabilities and reduce costs by leveraging internal synergy and the IMSA integration. To enhance our southern and eastern China supply chain network, we will open a 45,000 square metre site in Hengqin in 2018 to meet high-value cargo demand in the Pearl River Delta region. Looking forward, the logistics solutions business segment will continue to consolidate Hong Kong logistics operations to generate further synergies while exploring expansion opportunities in central China.

Healthcare Products Distribution

The healthcare products distribution business commenced with the acquisition of LF Distribution Holding Limited's consumer and healthcare distribution business in 2016 and was rebranded as DCH Auriga in 2017. DCH Auriga offers comprehensive supply chain solutions to the world's leading healthcare and life science companies with product coverage extending across pharmaceuticals, over-the-counter medicines, medical devices, personal care, nutrition and hospital consumables.

The healthcare industry represents significant growth opportunities for DCH with specialty supply chain requirements and favourable market dynamics across Asia. Healthcare expenditures are expected to increase in both the public and private sectors in response to continual public efforts to improve health outcomes, the rising personal income of the growing middle classes of Asia, ageing demographics and investment related to the ongoing technological evolution of the industry.

In 2017, DCH recorded the first full year of financial results for the healthcare products distribution business. Segment revenue increased by 98.0% and segment result from operations increased by 113.4% against the six months reported in 2016. On a like-for-like basis, revenue and segment result from operations were stable as market growth in Thailand and Macao offset supply constraints in mainland China. In Thailand, we achieved a double-digit growth in revenue and more than doubled profit, outpacing healthcare spending with gains in market share. In Hong Kong and Macao, DCH Auriga benefited from a rise in government expenditure and public investment in new healthcare facilities.

The outlook for the healthcare products distribution business in 2018 is strong as DCH continues to fortify its market position across the region with strategic investments in infrastructure. In Hong Kong, DCH is developing a sophisticated flagship supply chain centre for DCH Auriga which will be the largest dedicated healthcare storage facility in Hong Kong after its completion in 2019. The facility will include temperature-controlled storage and specialised warehousing for products such as pharmaceuticals, medical devices, blood storage and compression services. In Thailand, a dedicated distribution centre is being commissioned to further establish DCH Auriga as a full-service solutions provider offering principals packaging services, premium temperature-controlled storage and secure transportation. In 2018, DCH Auriga will focus on leveraging its geographic coverage to secure regional contracts, expanding the medical device category, directly sourcing medical consumables and developing home health delivery.

Electrical Products Distribution

The electrical products distribution segment of DCH distributes, retails and provides aftersales services for a wide range of domestic and international brands in the electrical, audio-visual, travel, lifestyle and home appliances categories. Operations extend across Hong Kong, Macao, mainland China and Southeast Asia under the Gilman Group, ToolBox, DCHdigi and DCHAV brands.

In 2017, segment revenue of the electrical products distribution business increased by 2.4% with the growth of property development project sales and the continued success of lifestyle audio products in mainland China. Despite revenue growth, segment result from operations was negatively impacted by rising warehousing costs coupled with intense price competition in Hong Kong triggered by a soft retail market.

In Hong Kong, property development project sales increased by 23.8%, leveraging a wide product portfolio to install built-in kitchen appliances such as refrigerators, washer-dryers and wine cellars as well as air conditioners and HVAC systems. Bolstered by a strong first-hand property market, project sales offset the slow sales of home appliances at retail related to soft replacement demand and unfavorable weather affecting seasonal sales. Sales in mainland China increased due to expansion in the lifestyle audio segment including the launch of popular B&O Play earphones and Shure audio products. In 2017, we focused on developing our product portfolio and channel mix, while preparing the business to serve changing consumer shopping preferences. In Hong Kong, we introduced the Crossover, a breakthrough lifestyle and home appliance experience concept bringing together music, wine appreciation and cooking experiences in Foodlab by Gilman.

While 2018 poses challenges, such as new regulations which require distributors to prepay for disposal costs, the outlook is favorable as we actively evaluate ways to expand the business and reduce supply costs to maintain profitability. In 2018, the electrical products distribution business will continue to expand the lifestyle electronics category, strengthen the property development projects business and develop online and offline shopping experiences. Following the success of B&O Play in mainland China, we will focus on attracting exciting lifestyle brands to replicate the success of consumer electronics launches in 2017. DCH will continue to strengthen existing relationships and competitive advantages in the property development project sales category, with a strong 2018 pipeline and opportunities to further leverage CITIC Limited's real estate development platform. Finally, we will continue to build on initial online to offline successes with online platforms like JD.com and explore experiential concepts in premium locations.

FINANCIAL REVIEW

OPERATING RESULT

For the year ended 31 December 2017, DCH recorded total revenue of HK$50,506 million, an increase of 8.7% against last year (2016: HK$46,462 million). Profit attributable to shareholders increased by 56.9% to HK$802 million (2016: HK$511 million).

REVENUE

Revenue in 2017 was HK$50,506 million, an increase of 8.7% as compared with HK$46,462 million in 2016. The increase was mainly due to revenue growth in the mainland China motor business and the full year effect of revenue contributed by the IMSA and DCH Auriga Group acquired on 30 June 2016.

Motor Business

The motor business segment revenue, which accounted for 67.5% of the Group's total revenue, increased by 4.5% to HK$34,073 million (2016: HK$32,598 million). The increase was attributable to a 6.8% increase in mainland China segment revenue which was partly offset by an 8.8% revenue drop in the other markets segment including Taiwan and Singapore.

The revenue growth in mainland China resulted from the increased sales of premium vehicles and the acquisition of three dealerships during the year.

Revenue in Hong Kong and Macao was stable as vehicle sales recovered in the second half of the year on the basis of strong model launches following a shift in market demand resulting from the electric car tax concession.

Revenue in the other markets segment decreased due to the exit of the Audi business in Taiwan and reduced demand for commercial vehicles in Singapore.

Consumer Products Business

Revenue from the consumer products business segment increased by 18.6% to HK$16,408 million (2016: HK$13,831 million). The increase was attributable to the inclusion of the full year revenue of the IMSA and DCH Auriga Group. On a like-for-like basis excluding the acquisition, segment revenue of the consumer products business dropped by 8.9% as compared to last year.

In mainland China, on a like-for-like basis, revenue decreased by 14.8% to HK$3,410 million (2016: HK$4,000 million) which was mainly attributable to our food and FMCG business which recorded sales shortfalls in key brands as the restructuring process continues.

In Hong Kong and Macao, revenue was stable on a like-for-like basis with a slight decrease of 3.0% to HK$5,234 million (2016: HK$5,397 million) due to the closure of loss-making retail shops. In addition, our food manufacturing business was suspended for a few months and relocated following an outbreak of Listeria in one of our major facilities.

In the other markets segment, on a like-for-like basis, revenue decreased by 22.5% to HK$430 million (2016: HK$555 million) mainly due to the weakened demand in Singapore.

SEGMENT PROFIT AFTER TAXATION

Segment profit after taxation in 2017 was HK$1,348 million, an increase of 26.9% as compared with HK$1,062 million in 2016.

Motor Business

Segment profit after taxation increased by 50.5% to HK$1,198 million (2016: HK$796 million).

Our mainland China segment profit after taxation was HK$704 million, more than triple versus last year (2016: HK$225 million), driven by margin improvement from the favourable sales of premium brands, tightened inventory control and the reduction of operating costs as a result of effective cost management initiatives.

However, segment profit after taxation of Hong Kong and Macao market fell by 28.2% to HK$329 million (2016: HK$458 million) due to vehicle discounting to clear inventory in a market impacted by the electric vehicle subsidy, the expiration of the contract for our government-designated commercial vehicle testing centre and unfavorable exchange rates of the Japanese Yen in the first half of the year.

Segment profit after taxation in other markets increased by 46.0% to HK$165 million (2016: HK$113 million) primarily due to the closure of loss-making operations and strong demand for commercial vehicles in Taiwan, which was partly offset by weak demand and inventory clearance in Singapore.

Consumer Products Business

Segment profit after taxation decreased 47.5% against last year to HK$105 million (2016: HK$200 million).

The mainland China consumer products business incurred segment loss after taxation of HK$196 million (2016: loss of HK$103 million) due to the poor performance of our restructuring food and FMCG business as price discounting for the clearance of aged inventories and higher advertising and promotion cost negatively impacted profit margin.

In Hong Kong and Macao, segment profit after taxation decreased by 10.2% to HK$264 million (2016: HK$294 million) due to challenges in our food commodity trading, food manufacturing and electrical products businesses. Food commodity trading recorded reduced profit due to margin pressure from new entrants while the food manufacturing business temporarily suspended production and incurred relocation costs to consolidate facilities. The electrical products division also reported a decrease in segment profit after taxation due to the increase in warehousing costs and a soft retail market. These adverse results were partly compensated by the consolidation of a full year of results from IMSA and DCH Auriga Group.

In other markets, segment profit after taxation was HK$37 million, four times higher than last year (2016: HK$9 million), due primarily to the full year results of the IMSA and DCH Auriga Group business, particularly in Thailand healthcare distribution.

Note: Segment profit after taxation represents profit after taxation from each reportable segment including share of profits and losses after tax of associates and joint ventures. Corporate expenses and recharges and 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$802 million, an increase of 56.9% as compared with HK$511 million in 2016. The improved performance was mainly contributed by the encouraging profitability growth in the motor business and the annualised impact from the IMSA and DCH Auriga Group integration. During the year, the Group has recorded gains from the disposal of non-core assets, implemented a tax review, and enhanced interest savings through progressive re-negotiation with banks.

EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the profit attributable to shareholders of the Company of HK$802 million (2016: HK$511 million) and the weighted average number of 1,834,950,810 (2016: 1,832,133,000) ordinary shares in issue during the year. Basic earnings per share was 43.71 HK cents for 2017, an increase of 56.7% as compared with 27.89 HK cents for 2016.

The diluted earnings per share for the year ended 31 December 2017 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 11.90 HK cents per share for the year ended 31 December 2017 (2016: 3.69 HK cents), together with the interim dividend of 5.05 HK cents per share (2016: 4.75 HK cents) already paid, the total dividend for 2017 was 16.95 HK cents per share (2016: 8.44 HK cents), an increase of 100.8%. The final dividend will be payable in cash, with an option granted to shareholders to receive the final dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of Stock Exchange.

FINANCE COSTS

The Group's finance costs increased by 2.1% to HK$193 million (2016: HK$189 million) mainly due to bank borrowings required to fund various merger and acquisition activities during the year. Despite the market interest rate hikes in 2017, the Group's effective interest rate has indeed decreased after series of successful negotiations with the banks.

INCOME TAX

Income tax decreased by 23.9% to HK$354 million (2016: HK$465 million). The effective tax rate for the year was 27.4% (2016: 42.4%) mainly due to the one-off tax settlement incurred last year and the implementation of a tax review in 2017.

NET ASSET VALUE PER SHARE

The calculation of net asset value per share was based on the net asset value of the Group of HK$10,712 million (31 December 2016: HK$9,244 million) and the 1,847,038,804 ordinary shares issued at 31 December 2017 (31 December 2016: 1,832,133,000 ordinary shares). Net asset value per share at 31 December 2017 was HK$5.80 (31 December 2016: HK$5.05).

CAPITAL COMMITMENTS

Please refer to note 32(a) to the consolidated financial statements for details of capital commitments outstanding at 31 December 2017.

CONTINGENT LIABILITIES

Please refer to note 33 to the consolidated financial statements for details of contingent liabilities at 31 December 2017.

CAPITAL EXPENDITURE

In 2017, the Group's total capital expenditure was HK$711 million (2016: HK$612 million) and major usages are summarised as follows:

Motor Business	–	Renovating 4S dealerships in mainland China, acquisition of motor vehicles for demo cars and leasing businesses in Hong Kong and mainland China, office renovation, fixtures and fittings and plant and equipment
Consumer Products Business	–	Office renovation, fixtures and fittings, plant and equipment and logistics facilities
Other Businesses and Corporate Office	–	Office renovation, fixtures and fittings and plant and equipment

HK$ million	2017	2016	Change
Motor Business	**548**	441	107
Consumer Products Business	**134**	116	18
Other Businesses	**13**	45	(32)
Corporate Office	**16**	10	6
At 31 December	**711**	612	99

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 limitations 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	2017	2016	Change
Cash and cash equivalents at 1 January	**1,042**	909	133
Operating profit before changes in working capital	**2,000**	1,614	386
Decrease in working capital	**402**	986	(584)
Cash generated from operations	**2,402**	2,600	(198)
Income tax paid	**(397)**	(366)	(31)
Net cash generated from operating activities	**2,005**	2,234	(229)
Net cash used in investing activities	**(611)**	(1,999)	1,388
Net cash used in financing activities	**(1,494)**	(53)	(1,441)
Net (decrease) / increase in cash and cash equivalents	**(100)**	182	(282)
Effect of foreign exchange rates changes	**71**	(49)	120
Cash and cash equivalents at 31 December	**1,013**	1,042	(29)

Operating profit before changes in working capital

Profit before taxation was HK$1,292 million in 2017 (2016: HK$1,097 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 financial assets at fair value through profit or loss and foreign exchange gain or loss, operating profit before changes in working capital was HK$2,000 million (2016: HK$1,614 million).

Decrease in working capital

In 2017, working capital decreased by HK$402 million which included the decrease in inventories of HK$659 million; the decrease in trade debtors and other receivables of HK$198 million and the decrease in trade creditors and other payables of HK$455 million. The decrease in working capital was mainly due to better stock management.

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 in both Hong Kong and mainland China.

Net cash generated from operating activities

In 2017, cash generated from operations, after taking into account the decrease in working capital, was HK$2,402 million. Together with the tax paid of HK$397 million, net cash generated from operating activities was HK$2,005 million.

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.

Net cash used in investing activities

In 2017, payments for purchase of property, plant and equipment were HK$797 million and net cash outflow for business combinations was HK$800 million, after netting off the net proceeds from disposal of property, plant and equipment of HK$295 million and net cash generated from other investing activities of HK$691 million, net cash used in investing activities was HK$611 million.

In 2016, payments 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.

Net cash used in financing activities

In 2017, net cash used in financing activities was HK$1,494 million. This was due to the net repayment of bank loans and other loans of HK$1,140 million, interest paid of HK$192 million and dividends paid to equity shareholders of the Company of HK$103 million, net cash outflow to holders of non-controlling interests of HK$55 million and cash used in acquisition of subsidiaries from non-controlling interests of HK$4 million.

In 2016, net cash used in financing activities was HK$53 million. This was 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 equity shareholders of the Company of HK$204 million.

GROUP DEBT AND LIQUIDITY

The financial position of the Group at 31 December 2017 is summarised as follows:

HK$ million	**2017**	2016	Change
Total debt	**6,927**	7,424	(497)
Cash and bank deposits	**1,138**	1,160	(22)
Net debt	**5,789**	6,264	(475)

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

The original denomination of the Group's borrowings as well as cash and bank deposits by currency at 31 December 2017 is summarised as follows:

HK$ million equivalent	HKD	RMB	JPY	USD	SGD	NTD	Others	**Total**
Total debt	3,578	660	84	2,457	–	52	96	**6,927**
Cash and bank deposits	79	686	30	21	63	138	121	**1,138**
Net debt / (cash)	3,499	(26)	54	2,436	(63)	(86)	(25)	**5,789**

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 2017, the Group's net gearing ratio was 36.3%, compared to 41.8% at 31 December 2016.

HK$ million	**2017**	2016	Change
Net debt	**5,789**	6,264	(475)
Shareholders' funds	**10,145**	8,732	1,413
Total capital	**15,934**	14,996	938
Net gearing ratio	**36.3%**	41.8%	(5.5%)

The effective interest rate of the Group's borrowings at 31 December 2017 was 2.5% (31 December 2016: 2.4%). The effect of rate hikes in the US was partly offset by the ability of the Group to get lower margin refinancing through active negotiation with banks with the increase in HKD and USD bank borrowings.

Maturity Profile of Outstanding Debt

The Group actively manages its debt maturity profile actively based on its cash flow and refinancing ability upon debt maturity. At 31 December 2017, the borrowings were repayable as follows:

	HK$ million	% of total
Within 1 year or on demand	**2,864**	41%
After 1 year but within 2 years	**2,237**	32%
After 2 years but within 5 years	**1,826**	27%
Total	**6,927**	100%

Available Sources of Financing

In addition to cash and bank deposits of HK$1,138 million at 31 December 2017 (31 December 2016: HK$1,160 million), the Group had undrawn available loan facilities of HK$9,107 million (31 December 2016: HK$8,243 million), of which HK$690 million (31 December 2016: HK$390 million) was committed term loans and HK$8,417 million (31 December 2016: HK$7,853 million) was uncommitted money market lines. The Group also had available trade facilities amounting to HK$5,382 million (31 December 2016: HK$4,915 million). Borrowings by sources of financing at 31 December 2017 are summarised as follows:

HK$ million	**Total**	Utilised	Available
Committed facilities:			
Term loans and revolving loans	**5,897**	5,207	690
Uncommitted facilities:			
Money market lines	**10,052**	1,635	8,417
Trading facilities	**6,153**	771	5,382

These can be reconciled to the total debt at 31 December 2017 as follows:

HK$ million	**2017**	2016	Change
Utilised term loans and revolving loans	**5,207**	6,349	(1,142)
Utilised money market lines	**1,635**	975	660
Discounted bills and trade loans	**80**	121	(41)
Others	**5**	(21)	26
Total	**6,927**	7,424	(497)

PLEDGED ASSETS

At 31 December 2017, the Group's assets of HK$372 million (31 December 2016: HK$355 million) were pledged in relation to financing of issuance of bank acceptance drafts and purchase of vehicle 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

At 31 December 2017, the Group had complied with all of the above financial covenants.

RISK MANAGEMENT

The Group has established a risk management system covering all 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 standards and comprises the "Three Lines of Defence" including the management of each business unit, the risk management function of the Group and the internal audit function.

The Board has outlined the nature and extent of risks that the Group is willing to undertake in pursuit of its business objectives in a Risk Appetite Statement. A Risk Management Policy incorporating the Risk Appetite Statement has been developed to guide the members of the Group in identifying and managing risks that the Group faces.

Based on the risk profile of each business unit, and taking into account management control and corporate oversight at the Group level, the Audit Committee and Internal Audit function 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 decisions of the Finance Committee, monitoring the adherence of the Treasury Policy and preparing relevant reports. All business units have the responsibility to identify and effectively manage their financial risk position and report 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 2017, the Group had entered into a number of interest rate swaps and a cross currency swap for hedging purpose with a total notional contract amount of HK$858 million (2016: HK$468 million) to reduce the impact of interest rate fluctuation on its unsecured bank borrowings. These interest rate swaps and a cross currency swap will be expired in 2019.

At 31 December 2017, together with the interest rate swaps entered in previous years, the Group had total outstanding interest rate swaps and a cross currency swap with a total notional contract amount of HK$1,776 million (31 December 2016: HK$1,588 million).

At 31 December 2017, the Group recognised interest rate swaps and a cross currency swap with a fair value of HK$13 million assets (31 December 2016: HK$10 million assets) as derivative financial instruments.

At 31 December 2017, interest rates of 34% of committed bank borrowings were fixed by interest rate swaps and a cross currency swap and the coverage was in appropriate level.

(2) Currency risk

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

The Group enters into foreign currency forward contracts primarily for hedging its sales and purchases that are denominated in currencies other than the functional currency of the operations to which they related. At 31 December 2017, the Group recognised foreign currency forward contracts with a fair value of HK$2 million liabilities (31 December 2016: HK$12 million liabilities) as derivative financial instruments.

In addition, 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 2017 was HK$83 million (2016: HK$213 million).

As of 31 December 2017, the Group has reviewed its foreign hedging position and considered it appropriate.

(3) Counterparty risk

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

The Group has set up limits for banks in order to ensure the Group deals with appropriate counterparties of which ability has been evaluated and concentration risk is addressed.

The limits should be correlated to the bank's credit rating, the loan limit granted to the Group and the business relationship.

(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 a rolling base cash flow forecast for the next 12 months and comparing liquid assets with short-term liabilities.

The Group maintains adequate level of cash together with sufficient available loan facilities so as to fulfill the requirements of normal operations, matured debt repayment and new business development.

(5) Credit risk in finance lease receivables

The Group operates a motor vehicle finance lease business in mainland China in parallel to its new car sales business. Credit risk may arise from a borrower failing to make scheduled repayments.

The Group has set up a comprehensive credit assessment policy with an extensive assessment checklist to evaluate the credit quality of individual borrowers. The Group has also set up standard collection procedures to handle delinquent loans.

As of 31 December 2017, the Group has reviewed the default rate in finance lease receivables and considered it normal.

The Group is actively exploring opportunities to further reduce its credit risk exposure in the finance lease business, including seeking cooperation with financial institutions to further enhance its credit assessment capability, and/or to reduce its risk exposure by sharing the loan portfolio with suitable business partners.

OPERATIONAL RISK

(1) Discontinuation of distributorship or dealership rights

The core business of the Group is to act as the distributor or dealer of motor, food, healthcare, and other consumer products. If distributorship or 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 one 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 the sale of goods and rendering of services to customers. Due to the Group's diversified business nature, the Group maintains 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 analyse and identify credit risks, set appropriate credit limits and controls and monitor risks on a timely basis by means of reliable management information systems. The Group performs regular updates to enhance credit policies in order to cope with the changes in markets, products and credit risk management practices.

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

(3) Product safety risk

The Group's diversified businesses cover food, healthcare products, motor vehicles, and household electrical appliances, each of which places high demand on reliability, quality, and above all safety. Government regulations along with expectations from consumers and stakeholders compel the Group to stay on the highest possible alert. The Group also operates in logistics which is subject to product damage or losses or industrial accidents. Adequate control measures and precautions are necessary to prevent accidents and ensure reliable service deliverables.

At DCH, safety is our utmost priority. To safeguard product quality, operation procedures and production systems are continuously reviewed and upgraded as needed. To ensure the Group stays at the forefront of quality assurance, our business units seek to comply with well-recognised industry standards and, when relevant, with regulatory requirements as well. Our food manufacturing facility complies with ISO 22000 Food Safety Management System and is HACCP certified. We carry electrical appliances that are in conformity with EMSD requirements, and our Designated Car Testing Centre and Vehicle Emission Testing Centre are appointed by the Hong Kong Government. Furthermore, we diligently look after our customers' and end users' safety concerns, and act responsively and responsibly when incidents happen in order to protect customers and end users from unnecessary harm.

To protect the financial interest of the Group, we strive to hold our suppliers responsible for product liabilities whenever practicable. Costs associated with product recall, including the cost of the goods recalled, are passed to responsible suppliers to the extent possible. Insurance policies are also arranged to protect the Group from legal liability and other property losses as appropriate.

(4) Inventory obsolescence risk

The range of products that the Group sells includes perishable food commodities and FMCG products which have a limited shelf life. These products require specific storage conditions to maintain quality and carry a risk of obsolescence and reduced value.

In situations where the Group purchases products from principals and distributes the products to wholesalers, retail outlets and the food service industry, the Group faces inventory obsolescence risk since changes in consumer trends may lead to substantial changes in demand. Overstocking, poor demand or returned goods from customers can result in inventory obsolescence.

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 product models will increase the risk of obsolescence for existing products and models. Accordingly, any unpredicted and unusual change in consumer demand can adversely affect the Group's performance.

The Group has established policies and guidelines to ensure every business unit reviews its stock level and prepares action plans as needed for stock clearance on a monthly basis. Progress on stock clearance is monitored and followed closely by both financial control and business unit management. Stock count policies requiring full counts and cycle counts have been set up to control the accuracy of the stock record. In addition, proper authorisation hierarchy and limits have been implemented to manage stock purchase functions within the Group.

(5) High-volume low-ticket products

The Group's food and FMCG products businesses deal with high-volume, low-ticket products. Since these products are usually traded in large quantities with relatively low pricing; business irregularities are not easily detected. The Group has adopted a holistic approach to mitigate this risk from preventive and detective means by conducting Code of Conduct trainings to employees, performing regular reviews, analysing exception reports, and implementing the whistle blowing program.

FIVE YEAR SUMMARY

At year end (HK$ million)	**2017**	2016	2015	2014	2013
Total debt	**6,927**	7,424	6,550	8,661	7,424
Cash and bank deposits	**1,138**	1,160	1,110	1,493	2,173
Net debt	**5,789**	6,264	5,440	7,168	5,251
Shareholders' funds	**10,145**	8,732	9,047	9,322	8,994
Total capital	**15,934**	14,996	14,487	16,490	14,245
Capital employed	**17,072**	16,156	15,597	17,983	16,418
Net gearing ratio	**36.3%**	41.8%	37.6%	43.5%	36.9%
Interest cover (times)	**11**	10	8	7	9
Property, plant and equipment	**3,784**	3,318	3,485	3,821	3,798
Investment properties	**229**	215	384	374	366
Lease prepayments	**858**	499	568	551	537
Interests in associates	**214**	175	350	350	224
Interests in joint ventures	**347**	364	411	415	426

For the year (HK$ million)	**2017**	2016	2015	2014	2013
Revenue	**50,506**	46,462	44,803	46,489	42,261
Profit attributable to shareholders	**802**	511	570	750	901
Basic earnings per share (HK cents)	**43.71**	27.89	31.11	40.94	49.21
Diluted earnings per share (HK cents) Note	**43.71**	27.89	31.11	40.94	49.15
Net gain on remeasurement of investment properties	**7**	3	18	10	19
EBITDA	**2,066**	1,867	1,744	1,935	2,074
Dividend per share	**HK cents**	HK cents	HK cents	HK cents	HK cents
Interim	**5.05**	4.75	6.10	9.30	8.68
Final	**11.90**	3.69	6.40	6.60	10.72
Total	**16.95**	8.44	12.50	15.90	19.40

Note:
The diluted earnings per share for the years 2014, 2015, 2016 and 2017 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

Location	2017	2016	2015	2014	2013
Mainland China	**103,181**	100,297	95,592	97,200	84,562
Hong Kong	**10,244**	10,431	12,820	12,695	10,481
Macao	**1,362**	870	1,828	2,111	2,370
Other Markets	**4,259**	5,434	4,879	3,830	3,551
Total units	**119,046**	117,032	115,119	115,836	100,964

Total number of 4S shops in mainland China

At year end	2017	2016	2015	2014	2013
4S shops	**80**	78	79	75	69

Total number of motor vehicle showrooms in Hong Kong

At year end	2017	2016	2015	2014	2013
Motor vehicle showrooms	**11**	11	12	11	11

Total number of DCH food retail outlets in Hong Kong

At year end	2017	2016	2015	2014	2013
DCH Food Mart	**3**	7	17	24	35
DCH Food Mart Deluxe	**49**	50	68	66	56
Total	**52**	57	85	90	91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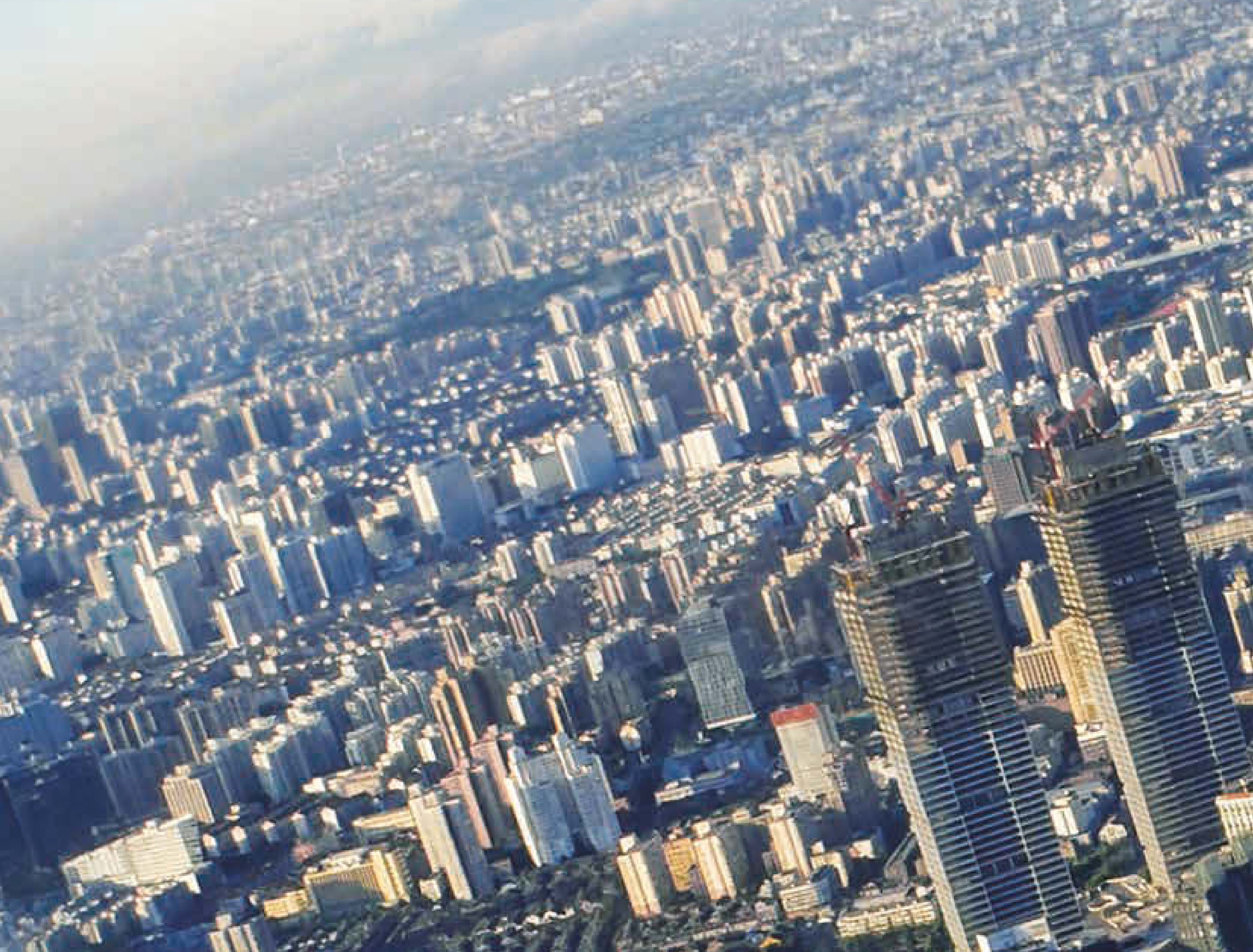
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR VISION FOR SUSTAINABILITY

With over sixty-five years of history as a trading and distribution leader in Asia, DCH is deeply committed to the highest standards of corporate governance and social responsibility. We recognise the importance of transparency, professionalism and accountability as cornerstones of creating sustainable value for all stakeholders including investors, employees, customers, business partners, communities and governments.

Our multi-dimensional approach to sustainability is driven by our core company values to deliver quality products with caring service and supported by an evolving framework of best practices that extends across finance, operations, risk management, business ethics and corporate communications. Our commitment to leadership in social responsibility is further supported by our many efforts to our customers, employees, communities and the environment.

As a retailer, distributor and manufacturer of products that touch the lives of millions, we fully embrace our role as an active and responsible contributor to the community and dedicate our efforts to stewarding shareholder value while positively impacting all stakeholders.




DCH
OUR COMMITMENT TO THE COMMUNITY
OUR COMMITMENT TO EMPLOYEES
OUR COMMITMENT TO THE ENVIRONMENT
OUR COMMITMENT TO BUSINESS PARTNERS AND CUSTOMERS

CONNECTING FOR A POSITIVE IMPACT

STAKEHOLDER ENGAGEMENT

DCH values effective communications with all stakeholders and maintains a high level of transparency through the timely and accurate provision of information. We regularly engage our stakeholders including investors, employees, customers, suppliers, business partners, media, government, regulators and the wider community through various channels.

In recognition of our efforts to engage our investors and the public, DCH received 11 awards for investor relations activities in 2017 including Best Investor Relations Company from both Corporate Governance Asia's Asian Excellence Awards and HKIRA's 3rd Investor Relations Awards.

Shareholders and Investors

- Annual reports, interim reports and public announcements are available on the DCH corporate website
- Annual general meeting provides a regular opportunity for our management to meet shareholders
- Roadshows, individual and group meetings keep investors abreast of our latest business developments

Government and Regulators

- Compliance measures fully adopted to ensure strict adherence with applicable laws and regulations
- Code of Conduct for employees
- Environmental, Social and Governance ("ESG") report including key performance indicators ("KPIs")

Suppliers and Business Partners

- Stringent sourcing rules applied to ensure the ethical procurement of quality products
- Over 150 industry awards received for business activities in recognition of product and service excellence

Media

- Media interviews, conferences and site visits conducted regularly for the press to share our developments with public stakeholders

Customers

- Customer Satisfaction Index surveys conducted regularly to facilitate continuous service improvement
- Strong customer relationship management through loyalty clubs such as DCH Motor Club and DCH Foods Membership Club

Employees

- Upgraded headquarter facilities provide learning and sharing spaces in the new canteen and book sharing corners
- Launch of "New Ideas Program" encouraging staff to share their ideas for business enhancement
- 18,000+ employees received training in 2017 totaling more than 140,000 training hours

BUSINESS PARTNERS AND CUSTOMERS

As a leading distributor and trading company, DCH sources products from all over the world and manages complex supply chains across the motor, food, consumer goods, healthcare and electronics industries. Accordingly, supply chain excellence and best practices are essential to our long term sustainability and business performance.

Operational Excellence in Supply Chain Management

As part of our supply chain management practices, we regularly review each supplier's and business partner's operational and product standards to ensure they are in full compliance to safety standards as well as local and international laws and regulations. We ensure our suppliers have obtained industry-recognised certifications and qualifications to produce our food, consumer goods and other products.

End-to-end food traceability is an increasingly important part of food quality and safety management. To optimise visibility in our supply chains, DCH adopts international standards and technology for food management systems to enable a high level of quality assurance and traceability. In 2017, three subsidiaries of the Company, DCH Logistics Company Limited ("DCH Logistics"), Sims Trading Company Limited and DCH Food Marts Limited ("DCH Food Marts") garnered the Gold Award in GS1's Quality Food Traceability Scheme 2017. This award recognises enterprises that have demonstrated an excellent level of safety and traceability, have implemented standards and a mature food traceability system.

Additionally, Gilman Group Limited ("Gilman Group"), part of our electrical products distribution business was recognised for their outstanding performance in Total Quality Management and awarded a Merit Award from the Hong Kong Management Association's 2017 HKMA Quality Awards.

SUSTAINABLE SEAFOOD

With businesses that include the sourcing, processing and retail of seafood, DCH is working with the World Wide Fund (WWF) to support the Ocean Friendly Catalogue (OFC) which aims to help consumers make ocean-friendly choices when purchasing seafood products. The OFC contains sourcing information about wild and farmed seafood to inform the public about the sustainability of the products they buy including species protection, environmental risks and living conditions in fishing communities. DCH's sustainable seafood selections have been included in the OFC.

Product Responsibility

Protecting the consumer by offering the highest standard of quality and safety is a top priority across our business units and DCH is in full compliance with the relevant laws and regulations relating to health and safety, advertising, labelling, privacy matters relating to products and service and methods of redress. In our food and FMCG business, we have implemented various measures to ensure food safety along the entire supply chain from manufacturing plants and packaging lines to delivery and sales channels. Our food manufacturing facilities in Hong Kong have obtained HACCP and ISO 22000 certifications and our products are examined regularly by accredited external laboratories for additional quality assurance.

Customer Service Excellence

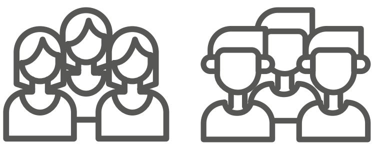
DCH is committed to providing the best service experience to our customers. As part of our dedication to caring service, we conduct regular customer service surveys in both our motor and consumer products businesses to continually improve our performance and offer every customer an exceptional experience. As a founding member of the Hong Kong Association for Customer Service ("HKACE"), we pursue continuous customer service improvements as an integral part of our daily operations.

DCH also attaches great importance to protecting the privacy of our customers. We strictly comply with the Personal Data (Privacy) Ordinance for all activities of DCH and ensure that clear and stringent guidelines for the use of customer information have been defined and communicated to every employee.

HUMAN RESOURCES

In alignment with business growth and management objectives, DCH fosters a strong working culture by promoting employee well-being, providing fair opportunities and building a platform for growth and development in full compliance to relevant regulations and laws relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. As at 31 December 2017, DCH had a total of 17,751 employees with 11,179 in mainland China, 4,675 in Hong Kong and Macao, and 1,897 in other locations, namely Japan, Taiwan, Singapore, Myanmar, Indonesia, Malaysia, Brunei, Thailand and the Philippines.

Workforce by gender

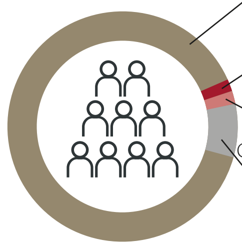


41% *Female* 59% *Male*

Management team by gender

18% *Female* 82% *Male*

Workforce by type



91.1% General Staff
0.1% Directors
1.0% General Managers
7.8% Managers

Workforce by geography

Location	December 2017	December 2016	December 2017 vs. December 2016
Mainland China	**11,179**	11,234	-0.5%
Hong Kong & Macao	**4,675**	4,825	-3.1%
Other Locations	**1,897**	2,249	-15.7%
Total	**17,751**	18,308	-3.0%

The total number of employees at the end of 2017 was 17,751, a 3.0% reduction against 2016.

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. In addition to annual reviews, special reviews are conducted to align pay packages of well-performing employees with prevailing market conditions, particularly in volatile labour markets. "Pay for performance" is the key principle adopted to link rewards to the achievement of key performance indicators and motivate employees to work towards the Group's goals and objectives.

Staff Activities

Understanding the important relationship between employee wellness and engagement, DCH continues its efforts to organise social, recreational and wellness activities for employees and their family members to enrich work and family life. In Hong Kong, a total of 9 events were organised with 1,549 participants.

Staff Retention

In 2017, we successfully reduced the employee turnover rate in Hong Kong to 18.5% from 19.3% in 2016 and to 23.1% in mainland China from 26.1% in 2016. Measures such as expanding recruitment channels and reviewing employees' compensation and benefits scheme and related terms and conditions were successfully adopted to recruit and retain talent.

Health and Occupational Safety

DCH strives to provide a safe and healthy work environment for all employees. Regular reviews and audits are performed in accordance with statutory and industry requirements. In Hong Kong, the injury rate on a per thousand employees basis was 21.0 in 2017 reduced from 26.0 in 2016.

To reiterate our commitment to fair employment and occupational safety, DCH fully complies with all relevant laws and regulations regarding the prevention and prohibition of child and forced labour.

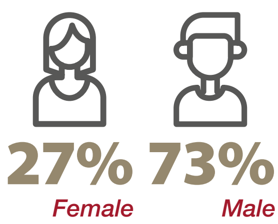
Development and Training

Talent development and retention are fundamental to our continued success. In support of business development, we provide a wide range of internal and external training courses for our employees to enhance individual skillsets, transform our culture and strengthen our management capabilities.

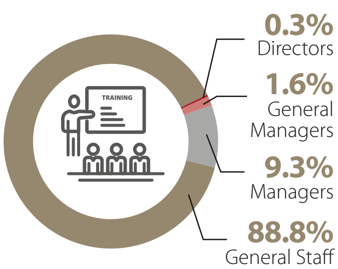
In 2017, more than 18,000 participants attended over 140,000 hours of training programmes focusing on leadership, cultural transformation, and skills training. These training initiatives included an orientation tour, customer service enhancement training, a CEO sharing session to align our corporate values, internal award competitions for our front line staff and engaging "Lunch and Learn" sessions. To further facilitate development, continuous skills improvement and information exchange, we set up a book corner in our Kowloon Bay office and launched a new app-based mobile learning center enabling staff across our regions to access training programs independently. At the end of 2017, we have activated more than 9,000 accounts.

Finally, DCH has established a "Management Trainee Program" which is an integral part of our young talent development and succession planning. As a result of our dedicated efforts and achievements towards staff development, DCH was recently recognised by the government of Hong Kong SAR as "Manpower Developers."

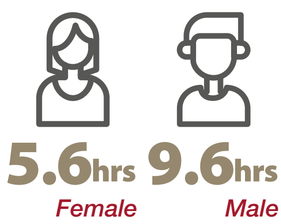
Training by gender



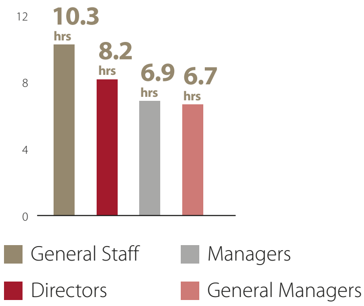
Training by Employee Type



Average Training Hours by Gender



Average Training Hours by Employee Type



COMMUNITY INITIATIVES

Responsible corporate citizenship is an integral part of sustainable development and DCH has a long history of working with our communities to help enrich the quality of living for all. Over the years, we have developed a strong volunteer team and culture of community service across our offices as we leverage our unique operational capabilities to benefit those in need.

DCH Volunteer Team

The DCH volunteer team was first organised formally in 2012 and since then has grown to support six regional teams with more than 1,000 registered volunteers. The first volunteer team was established in our head office in Hong Kong and since then we have added chapters in Yunnan (2014), southern China (2014), eastern China (2015), Jiangzhong (2016) and Taiwan (2017) to advocate our philosophy of giving back to the community. This year, the DCH volunteer team donated more than 5,000 community service hours and participated in more than 50 events.

Working in partnership with more than 20 charitable organisations, DCH regularly organises activities for our employees to provide value to the community. This year, DCH and DCH Food Mart co-sponsored an event hosted by a celebrity chef to make dumplings with the elderly including the donation of food and cooking materials. We also supported Oxfam's Trailwalker event for the 11th consecutive year with seven teams volunteering to take on the 100 kilometer challenge and additional donations of vehicle rentals, grocery coupons, food and beverages. Other DCH volunteer events included the SPS Charity Walk, the Community Chest Walk for Millions and the St. John's Let Eat Go Orienteering event.

Charitable Donations

In addition to volunteer activities, DCH regularly offers philanthropic support to many non-government organisations such as Oxfam, YMCA, Orbis, and Medecins San Frontiers.

In 2017, we leveraged our food sourcing expertise to donate more than 10 tonnes of rice for Oxfam's Charity Rice Sale as a fund raiser for the underprivileged. The DCH volunteer team also managed public sales booths to promote the program and were awarded the Outstanding Fundraising Award by Oxfam for their efforts and contribution. We also continued our support of the Mobile Classroom project in partnership with YMCA, using donated mini-vans to teach children and villagers in remote areas of Sichuan and Yunnan.

LEVERAGING OUR EXPERTISE TO HELP OTHERS

This year, DCH businesses united their efforts to provide the Man Kiu Primary School with a much needed facility upgrade. To support the school, DCH and Gilman Group sponsored ten commercial grade air conditioners for the school's central auditorium and used our professional expertise to complete the system installation free of charge. It was a rewarding example of how DCH can leverage unique expertise to create value for the local community.

Awards and Recognitions

DCH has always proactively promoted a caring culture and encouraged employees to make a positive contribution to the community. In 2017, DCH was recognised at The 7th Hong Kong Outstanding Corporate Citizenship Awards by the Hong Kong Productivity Council in acknowledgment of our continuous dedication to corporate social responsibility. The Group garnered the Merit Award in the Volunteer Category and the Corporate Citizenship Logo in the Enterprise Category.

The DCH volunteer team also garnered the Golden Award for Volunteer Service in 2017 from the Social Welfare Department. We have additionally been awarded the Social Capital Builder Logo Awards 2016-18 organised by the Community Investment and Inclusion Fund of the Labour and Welfare Bureau recognising the group's outstanding effort in developing social capital.

2017 SOCIAL AWARDS AND RECOGNITIONS

Organisation	Award
The Community Investment and Inclusion Fund of the Labour and Welfare Bureau	Social Capital Builder Awards 2016
Hong Kong Productivity Council	The 7th Hong Kong Outstanding Corporate Citizenship Awards – Merit Award in the Volunteer Category – The Corporate Citizenship Logo in the Enterprise Category
Social Welfare Department	Gold Award for Volunteer Service
The Hong Kong Council of Social Service	Caring Company, 10+ Years
Hong Kong Women Professional & Entrepreneurs Association	The FoodEver Award
Oxfam	Outstanding Fundraising Award in the Oxfam Rice Event

ENVIRONMENTAL INITIATIVES

Because we believe that quality living is about enriching lives today as well as caring for future generations, environmental protection is an important part of our sustainable development. With hundreds of locations and distribution operations across Asia, we believe that we can make the most impact by focusing our sustainable programs on efficiency and conservation while endeavoring to incorporate meaningful and eco-friendly practices into our daily business.

Efficiency

DCH has implemented a wide range of activities focused on the efficient utilisation of energy in our various business units and across our many locations including offices, showrooms and warehouses.

Distribution and Sale of Fuel Efficient Vehicles

As one of the leading motor groups in Greater China and the operator of a wide distribution network across Asia, reducing vehicle emissions is an important part of managing our impact on the environment.

In order to positively contribute to a healthy public environment, DCH is committed to working with our branded partners to continually offer consumers improved fuel economy and alternative fuel vehicles. We bring the latest fuel efficient and eco-friendly vehicles to market across our wide range of automotive brands including both passenger and commercial vehicles.

As a leader in commercial vehicle sales in Hong Kong, DCH pioneered the introduction of electric buses and currently offers a full range of new energy vehicles for public transport operators including super-capacitor electric buses and lithium battery buses. To further support environmentally-friendly transport, we also supply selective catalytic reduction devices to reduce harmful gases in the emissions of diesel vehicles. Recently, the government of Hong Kong SAR initiated regulations to strengthen emission requirements and phase out more than 80,000 pre-Euro IV standard diesel commercial vehicles by the end of 2019. DCH has been actively supporting the new emission regulations by introducing commercial vehicles that comply with the next generation EURO V and EURO VI standards.

In our motor leasing business, DCH also offers 15 electric vehicle passenger cars for rental and we have installed recharging stations located in our headquarters to encourage a sustainable life style.

Eco-Friendly Vehicle Fleet

To promote sustainability, DCH operates an in-house electric vehicle fleet in Hong Kong. We have 19 electric cars for internal use to reduce our emissions as a company and encourage our employees to explore green driving options. In our logistics business, we are currently upgrading the fuel efficiency of our fleet to be fully compliant to the new emission standards before the end of 2019. In order to promote a fuel efficiency, our drivers are also advised to plan their trips to avoid heavy traffic and switch off the engine when idling.

Energy Efficiency

As part of our commitment to protecting the environment, DCH has implemented various measures to ensure the efficient use of energy in our many locations including warehouses, offices and retail outlets. DCH was one of the original pilot companies of the World Green Organization's Green Office Awards Labelling Scheme (GOALS) and has maintained the label in recognition of our actions to continually reduce our energy consumption and carbon footprint. As part of these efforts, we have implemented responsible practices regarding the use of lighting, air conditioning and printers and have adopted green procurement policies to ensure the purchase of sustainable goods such as recycled paper and eco-friendly electrical appliances. DCH also encourages employees to care for the environment and arranged a series of promotions and activities throughout the year to share the importance of environmental protection and has tips for living an eco-friendly lifestyle.

DCH understands the importance of energy efficiency and has been a long time sponsor and participant in the Earth Hours event held by the World Wide Fund for Nature Hong Kong to raise awareness of climate change. In addition to taking part in the symbolic "lights-out" event, we maintain a daily practice of turning off unnecessary lighting to reduce the company's carbon footprint and continue to support the Hong Kong Environment Bureau's Inaugural Charter on External Lighting signed in 2010.

GREEN WAREHOUSES WITH DCH LOGISTICS

In 2017, DCH Logistics committed to improving energy efficiency with the goal of reducing the overall electricity usage for cold chain operations at the DCH Logistics Centre in Yuen Long, Hong Kong. To reduce energy consumption while maintaining the highest levels of quality and temperature control, DCH Logistics changed half of the tubes in the air-conditioned storage warehouse to the advanced "T8 LED Microwave Sensor Tube." The implementation of the new tubes successfully decreased electricity consumption by 47% compared with 2016. DCH Logistics also implemented the "Electronic Descaling System & Cooling Tower Water Treatment System" in the cooling tower of the cold storage warehouse for an estimated 10% energy savings per year.

Conservation

Conservation is a significant part of protecting our natural environment and DCH is devoted to responsible business practices to reduce our consumption of vital resources. We work with our stakeholders including staff and consumers to support environmental protection and believe in the principal that small lifestyle changes can add up to a significant positive contribution towards environmental sustainability.

TREE PLANTING WITH DCH MOTOR CLUB

In 2017, the DCH Motor Club co-organised the 11th Annual Tree Planting event with a local radio station, bringing together more than 800 volunteers including our employees and customers to plant hundreds of trees in Shenzhen, China.

Recycling

To promote a sustainable working environment, DCH has implemented programs promoting the "4Rs" (Reduce, Reuse, Recycle and Replace) and we strive to minimise office waste every day. In 2017, we were recognised for our ongoing commitment to sustainable practices and waste reduction and awarded the Wastewi$e, IAQwiSe and Energywi$e labels from the Environmental Campaign Committee. These awards endorsed our achievements in waste reduction, energy reduction and the maintenance of indoor air quality beyond the certification requirements of the IAQ Certification Scheme. This year we also joined a recycling campaign by Greeners Action to collect Chinese New Year red packets from staff for recycling and reuse.

In addition to the recycling efforts in our offices, DCH also strives to promote sustainable development in our retail outlets and showrooms. This year, DCH and DCH Food Mart participated in the government-supported FoodEver and WasteNever Programmes, garnering awards for establishing channels that advocate food waste reduction and the adoption of sustainable Food Life Cycle Management practices.

Proper Waste Management Practices

As part of our normal operations, DCH ensures that all recyclable material and non-recyclable waste generated during the course of business activities is managed properly and in full compliance to regulatory requirements to avoid any negative impact to the environment. Our motor repair and maintenance businesses collect waste oil and used tyres while providing services to consumers and ensure that the non-recyclable waste materials are collected by fully licensed contractors for proper disposal in compliance with all laws and regulations.

ORGANIC VEGETABLE GARDEN PLANTING

To commemorate Earth Day on the 22nd of April, DCH volunteers gathered to plant organic vegetable gardens using green spaces on our business properties in Shanghai, Nanjing and Jiaxing. The garden produce was later collected and donated to the social welfare service unit to benefit not just the environment, but also our local communities.

2017 ENVIRONMENTAL AWARDS AND RECOGNITIONS

Organisation	Award
Environmental Campaign Committee	Class of Excellence Wastewi$e Label, Hong Kong Awards for Environmental Excellence Energywi$e Label, Hong Kong Awards for Environmental Excellence Class of Good IQAwi$e Label, Hong Kong Awards for Environmental Excellence
World Wide Fund for Nature Hong Kong	Membership of Low-carbon Office Operation Programme (LOOP) Labelling Scheme Pearl Membership
World Green Organisation	Pilot Company in the Green Office Awards Labelling Scheme (GOALS) Eco-healthy Workplace Label
Junior Chamber International Hong Kong	Better World Company

Environmental Performance Data

In accordance with the Environment, Social and Governance Reporting Guide ("ESG Reporting Guide") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), DCH has collected data based on KPIs deemed material to our business operations.

Materiality and Scope

With the endorsement of our Sustainability Steering Committee, we have conducted a materiality test by peer benchmarking to identify sustainability KPIs significant to our business operations. We have found all General Disclosures and 10 environmental KPIs including A1 General Disclosure, KPI A1.1, KPI A1.2, KPI A1.3, KPI A1.4, KPI A1.5, KPI A1.6, A2 General Disclosure, KPI A2.1, KPI A2.3, KPI A2.5, A3 General Disclosure, KPI A3.1, to be material and shall be disclosed. The remaining KPIs have been determined to be immaterial and are not disclosed in this report.

In order to ensure the integrity of the data in 2017, data has been collected for only DCH headquarters and business units with predominant operations in Hong Kong for the reporting period of 1 January 2017 to 31 December 2017 with best effort employed to ensure completion and accuracy. The Hong Kong Productivity Counsel ("HKPC") was commissioned by DCH has reviewed the availability and appropriateness of the data (such as data completeness and unit consistency) to ensure proper data collection. DCH will continue to enhance its data collection system and expand the scope of disclosure in the future.

2017 Environmental Performance Data (Hong Kong Operations)[1]

Energy use and emissions	2017 Usage total	Unit
Electricity	43,270,327	kilowatts
Towngas	1,656,192	megajoules
Diesel	1,786,978	litres
Unleaded petrol	323,107	litres
Liquefied petroleum gas	12,926	kilograms
CO2e (Scope 1)	5,723	tonnes
CO2e (Scope 2)[2]	30,310	tonnes
NOx emissions	0.01	tonne
SOx emissions	0.03	tonne

Consumption	2017 Usage total	Unit
A4, A3 and other office paper	86,990	kilograms
Waste water	25,535	cubic metres

Product packaging usage	2017 Usage total	Unit
Paper	4,358,216	tonnes
Plastics	73,218	tonnes
Glass	74,191	tonnes
Metal	572	tonnes

Recycling of non-hazardous waste	2017 Usage total	Unit
Paper	124,161	kilograms
Metal	77	tonnes

Hazardous waste collected by registered vendors	2017 Usage total	Unit
Spent lube oil	395,471	litres
Used non-halogen solvent	1,200	litres
Batteries	147,084	kilograms
Lithium batteries	17,600	kilograms
Tyres	83,420	kilograms
Oil filters	20,166	kilograms

Notes

1 Data has been collected for DCH headquarters and business units with predominant operations in Hong Kong for the reporting period of 1 January 2017 to 31 December 2017 with best effort employed to ensure completion and accuracy. HKPC was commissioned by DCH and has reviewed the availability and appropriateness of the data (such as data completeness and unit consistency) to ensure proper data collection.

2 Use territory-wide factor (0.7) for calculation

ESG REPORTING GUIDE INDEX

Compliance and Scope

DCH prepared its ESG report with reference and in compliance to the ESG Reporting Guide issued by the Stock Exchange.

In order to ensure the integrity of the data in 2017, data has been collected for only DCH headquarters and business units with predominant operations in Hong Kong for the reporting period of 1 January 2017 to 31 December 2017 with best effort employed to ensure completion and accuracy. HKPC was commissioned by DCH and has reviewed the availability and appropriateness of the data (such as data completeness and unit consistency) to ensure proper data collection.

DCH will continue to enhance its data collection system and expand the scope of disclosure in the future.

Materiality Analysis

To identify significant issues on sustainability relating with our business, we commissioned a peer benchmarking and materiality test conducted by HKPC and had the findings reviewed and endorsed by our Sustainability Steering Committee. We have deemed all General Disclosures, 10 environmental KPIs and 9 social KPIs to be material to our operations and appropriate for disclosure including A1 General Disclosure, KPI A1.1, KPI A1.2, KPI A1.3, KPI A1.4, KPI A1.5, KPI A1.6, A2 General Disclosure, KPI A2.1, KPI A2.3, KPI A2.5, A3 General Disclosure, KPI A3.1, B1 General Disclosure, KPI B1.1, B2 General Disclosure, KPI B2.3, B3 General Disclosure, KPI B3.1, KPI B3.2, B4 General Disclosure, B5 General Disclosure, B6 General Disclosure, KPI B6.4, KPI B6.5, B7 General Disclosure, KPI B7.2, B8 General Disclosure, KPI B8.1, and KPI B8.2. The remaining KPI have been determined to be immaterial and are not disclosed in this report.

Materiality Analysis Process

Stage 1: Engaged external consultant HKPC to conduct peer performance review.
Stage 2: Examined relevant peer disclosure practices for benchmarking purposes to determine material disclosures.
Stage 3: Final review and endorsement by Sustainability Steering Committee.

ESG Reporting Guide Index of KPI

Subject Areas and Aspects	Disclosures and KPI	Description	Reference Page No.
Aspect A1: Emissions	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	50-54
	KPI A1.1	The type of emissions and respective emission data	54
	KPI A1.2	Greenhouse gas emissions in total and intensity	54
	KPI A1.3	Total non-hazardous waste produced and intensity	54
	KPI A1.4	Total hazardous waste produced and intensity	54
	KPI A1.5	Description of measures to mitigate emissions and results achieved	54
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled reduction initiatives and results achieved	50-54
Aspect A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	50-54
	KPI A 2.1	Direct or indirect energy consumption in total and intensity	54
	KPI A 2.3	Description of energy use efficiency initiatives and result achieved	50-54
	KPI A 2.5	Total packaging material used for finished products	54
Aspect A3: The Environmental and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impacts of activities on the environment and natural resources	50-54
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	50-54
Aspect B1: Employment	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to the compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare	46-47
	KPI B1.1	Total workforce by gender, employment type, age, group and geographical region[1]	46
Aspect B2: Health and Safety	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees form occupational hazards	46-47
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	46-47

Subject Areas and Aspects	Disclosures and KPI	Description	Reference Page No.
Aspect B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	46-47
	KPI B3.1	The percentage of employees trained by gender and employee category	47
	KPI B3.2	The average training hours completed per employee by gender and employee category	47
Aspect B4: Labour Standards	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to the preventing child and forced labour	47
Aspect B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	44-47
Aspect B6: Product Responsibility	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to the health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	44-45
	KPI B6.4	Description of quality assurance process and recall procedures	34, 44, 45
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	45
Aspect B7: Anti-corruption	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	58-76
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	58-76
Aspect B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	40-48
	KPI B8.1	Focus areas of contribution	48-49
	KPI B8.2	Resources contributed to the focus area	48-49

[1] Data on total workforce by age is not available for collection and disclosure in 2017.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

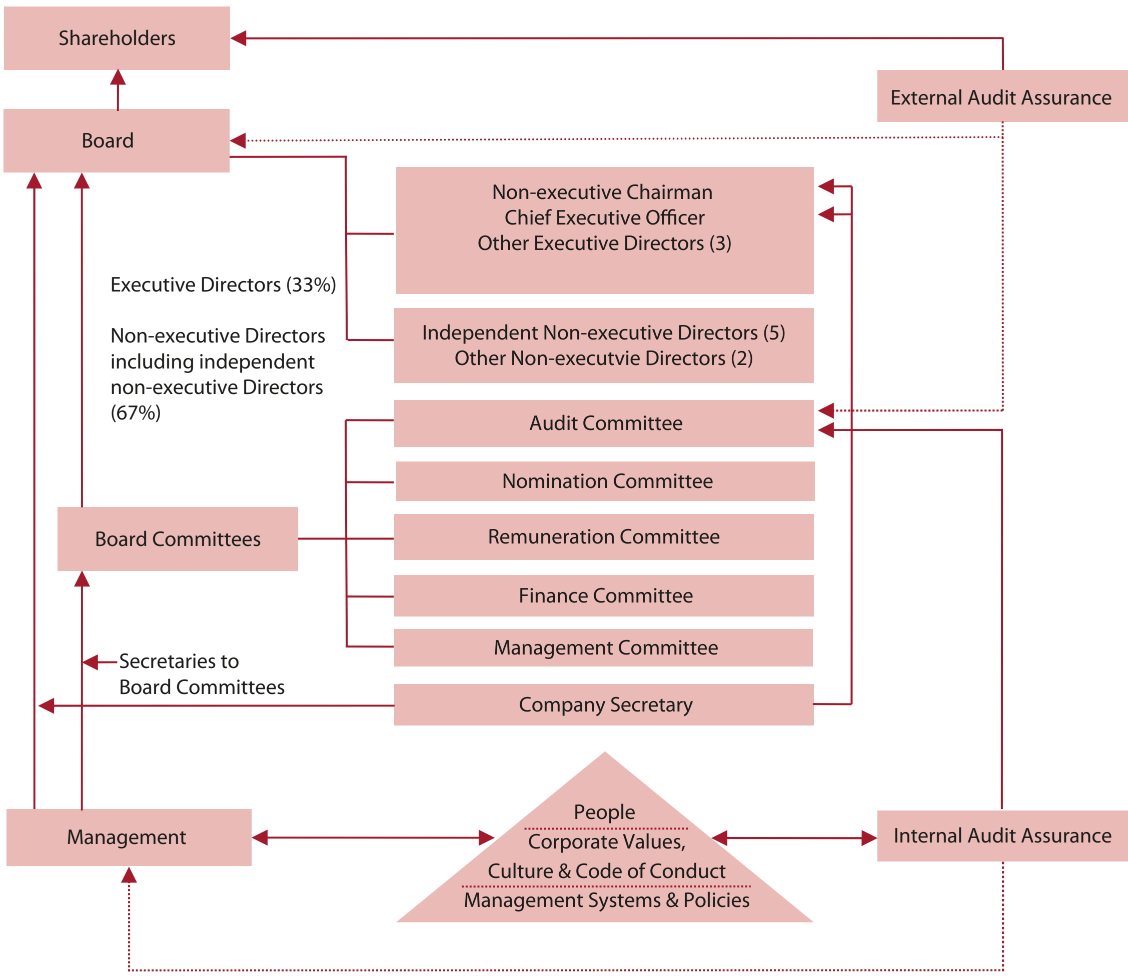
DCH is committed to maintaining high standards of corporate governance. The board (the "Board") of directors (the "Directors") of the Company believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. We attach importance 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, and 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 2017, 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for a deviation as disclosed in this report.

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 the Company 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 the Company 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 and laws.

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 affairs of the Group and the Board operates effectively as a whole.

Board Composition and Changes

The Company announced the following changes in board composition:

1. On 1 March 2017, Mr Yip Moon Tong retired as an executive Director ("ED") and chief executive officer and ceased to be a member of both finance committee and management committee of the Company;

2. Mr Lai Ni Hium was appointed as the chief executive officer of the Company with effect from 1 March 2017; and

3. With effect from 1 March 2017, Mr Lee Tak Wah and Ms Fung Kit Yi, Kitty were appointed as EDs of the Company.

As at the date of this report, the Board comprises 4 EDs, 3 non-executive Directors ("NEDs") and 5 independent non-executive Directors ("INEDs"). NEDs (including INEDs) comprise 67% of the Board, of which INEDs satisfy the requirement of representing at least one-third of the Board. The Company believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirement of DCH's business.

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 the Company), 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. The Company 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.

Brief biographical particulars of the Directors are set out in the section headed "Directors and Senior Management" of this 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 the Company and pursuant to Article 104(A) of the Company'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.

The Company 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 at least four times a year to review financial and operating performance of DCH and to discuss future strategy and development. Four Board meetings were held in 2017. At the Board meetings, the Board reviewed significant matters including annual and interim financial statements, annual budget, proposals for interim and final dividends, annual report and interim report, and notifiable transactions and connected transactions. 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.

Pursuant to the Company's Articles of Association, a Director would abstain from voting on resolution(s) approving any contract, transaction or arrangement in which he / she or any of his / her close associates is materially interested in and such Director is not counted for quorum determination purposes.

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.

In addition to the Board meetings, the Chairman held a private meeting with the NEDs (including the INEDs) without the presence of the 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 the Company held on 22 May 2017 ("2017 AGM") is set out below:

	Attendance/ Number of Meetings	
Name of Directors	**Board Meeting**	**2017 AGM**
Non-executive Chairman		
Mr Zhang Jijing	4/4	1/1
Executive Directors		
Mr Lai Ni Hium	4/4	1/1
Mr Lau Sei Keung	4/4	1/1
Mr Lee Tak Wah *(appointed on 1 March 2017)*	3/3	1/1
Ms Fung Kit Yi, Kitty *(appointed on 1 March 2017)*	3/3	1/1
Mr Yip Moon Tong *(retired on 1 March 2017)*	1/1	N/A
Non-executive Directors		
Mr Kwok Man Leung	4/4	1/1
Mr Fei Yiping	3/4	0/1
Independent Non-executive Directors		
Mr Hsu Hsung, Adolf	4/4	1/1
Professor Yeung Yue Man	4/4	1/1
Mr Chan Kay Cheung	4/4	1/1
Mrs Chan Hui Dor Lam, Doreen	4/4	1/1
Mr Woo Chin Wan, Raymond	4/4	1/1

The Company's external auditor also attended the 2017 AGM.

Mr Fei Yiping (a NED) was not able to attend the 2017 AGM due to pre-arranged overseas business engagements which could not be rescheduled.

Chairman and Chief Executive Officer

During the year, Mr Zhang Jijing served as the non-executive Chairman with Mr Lai Ni Hium (with effect from 1 March 2017) and Mr Yip Moon Tong (till 28 February 2017) as the Chief Executive Officer. The non-executive Chairman and the 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 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 the 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, the Company Secretary of the Company, has complied with the training requirements during the year ended 31 December 2017.

Directors' Continuous Professional Development ("CPD") Programme

The Company 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, Mr Lee Tak Wah and Ms Fung Kit Yi, Kitty were appointed as EDs. The Company has arranged briefings given by external legal counsel to the new Directors.

Under the Company's CPD Programme, the Board visited the newly acquired 4S shops in Cixi, China Food division and China Motor division in Shanghai in November 2017. 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 the Company's CPD Programme for the period from 1 January 2017 to 31 December 2017 is as follows:

Name of Directors	Type of CPD Programme (Keys)
Non-executive Chairman	
Mr Zhang Jijing	A, B, C, D, E
Executive Directors	
Mr Lai Ni Hium	A, B, C, D, E
Mr Lau Sei Keung	A, B, C, D, E
Mr Lee Tak Wah *(appointed on 1 March 2017)*	A, B, C, D, E
Ms Fung Kit Yi, Kitty *(appointed on 1 March 2017)*	A, B, C, D, E
Non-executive Directors	
Mr Kwok Man Leung	A, B, C, D, 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	A, B, C, D, E
Mr Woo Chin Wan, Raymond	A, B, C, D, 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 Yip Moon Tong retired as ED and Chief Executive Officer on 1 March 2017. Reading materials, regulatory updates and management monthly updates were provided to him during the period of his appointment.

The Board is of the view that the CPD events during the year satisfied the defined scope of CPD programme of the Company and that the Company 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, with Mr Hsu Hsung, Adolf, Professor Yeung Yue Man, Mr Chan Kay Cheung, and Mrs Chan Hui Dor Lam, Doreen as members. Mr Woo Chin Wan, Raymond has relevant professional qualifications and expertise in financial reporting matters.

The audit committee holds three meetings each year with the Company's Chief Financial Officer, the external and internal auditors. 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 the Company'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 the Group and provide oversight of the financial reporting system;
- monitor the effectiveness of external audit and oversee the appointment, remuneration and terms of engagement of the Company'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) the review of DCH's compliance with the CG Code and disclosure of the corporate governance in the ESG 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)*	3/3
Mr Hsu Hsung, Adolf	3/3
Professor Yeung Yue Man	3/3
Mr Chan Kay Cheung	3/3
Mrs Chan Hui Dor Lam, Doreen	3/3
Other Attendees	
Chief Financial Officer – Ms Fung Kit Yi, Kitty	3/3
Internal Auditor	3/3
External Auditor	3/3

The Company Secretary acts as secretary to 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 2017

During 2017, 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 2016 annual financial statements and their independent review of the 2017 interim financial statements 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 2018;
- 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 fine tune three lines of defence, modify the roles and responsibilities of various levels of management teams and to revise the risk register, 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 ESG report.

In the audit committee meeting held on 5 March 2018, the audit committee reviewed and approved the Company's audited financial statements and annual report for the year ended 31 December 2017, and considered reports from the external and internal auditors. The audit committee recommended that the Board approves the 2017 annual report and audited financial statements.

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 and Mr Woo Chin Wan, Raymond as members. 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 two 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	1/1
Mr Woo Chin Wan, Raymond	1/1

Work Done in 2017

During the year, one meeting was held with full attendance by the committee members in person. Two sets of resolutions were passed by circular by all the committee members during 2017. The nomination committee reviewed the terms of reference of the nomination committee; reviewed the structure, size, composition and diversity of the Board; reviewed certain measurable objectives; reviewed the board diversity policy of DCH and concluded all objectives were met and no change to the policy is required. The nomination committee also recommended to the Board the re-election of the retiring Directors at the forthcoming annual general meeting.

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, Mr Woo Chin Wan, Raymond and Mr Kwok Man Leung. 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. 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	1/1
Mr Woo Chin Wan, Raymond	1/1
Non-executive Director	
Mr Kwok Man Leung	1/1

Work Done in 2017

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 2018.

Details of DCH's remuneration policies are set out on page 46 under the heading "Remuneration" in this Environmental, Social and Governance Report. Details of Directors' emoluments and retirement benefits are disclosed in notes 9 and 29 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 2017 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.

The finance committee currently comprises 4 EDs. Work done by the finance committee in 2017 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, it comprises Chief Executive Officer, Chief Financial Officer and Chief Corporate Officer, together with the EDs and senior management appointed by the Chief Executive Officer from time-to-time. The full terms of reference were adopted on 20 August 2015 and amended on 8 March 2018. 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 amendments to 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 2017 are set out in the Independent Auditor's Report on pages 97 to 103.

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 2017, the fees in respect of audit and non-audit services charged to the Group by external auditors were amounted to approximately HK$18 million and HK$7 million respectively. The audit services fee of HK$18 million is net of an adjustment for over-provision in prior year of HK$5 million. Audit services includes statutory audit and review of financial statements and completion audit for mergers and acquisitions. The non-audit services mainly consist of consultancy, taxation, and other reporting services. Detailed remuneration in respect of services provided by the external auditors is as follows:

	HK$ million
Audit services – KPMG	12
– other auditors	6
Non-audit services – KPMG	6
– other auditors	1

Internal Controls and Risk Management

The Board is responsible for overseeing the Group's risk management and internal control systems on an ongoing basis, and for ensuring that such systems are reviewed for their effectiveness at least annually. The Board has delegated the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group and to review the effectiveness of the systems.

The Group's risk management and internal control systems are designed to reduce or manage risk to an acceptable level for the Group. They do not eliminate the risk of failure to achieve business objectives, but can only provide reasonable and not absolute assurance against material misstatement or loss.

DCH continues to place considerable emphasis on maintaining and enhancing the effectiveness of its risk management and internal control systems. In 2017, the risk management policy has been reviewed and revised, and has been approved by the Board. In addition, external experts have been engaged to fine-tune the risk assessment process, and the Group's internal control self-assessment framework has been enhanced during the year.

DCH's risk management framework comprises these key elements: risk governance structure, risk management process 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 identifying risks, maintaining effective internal controls and for executing risk mitigation 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 Process

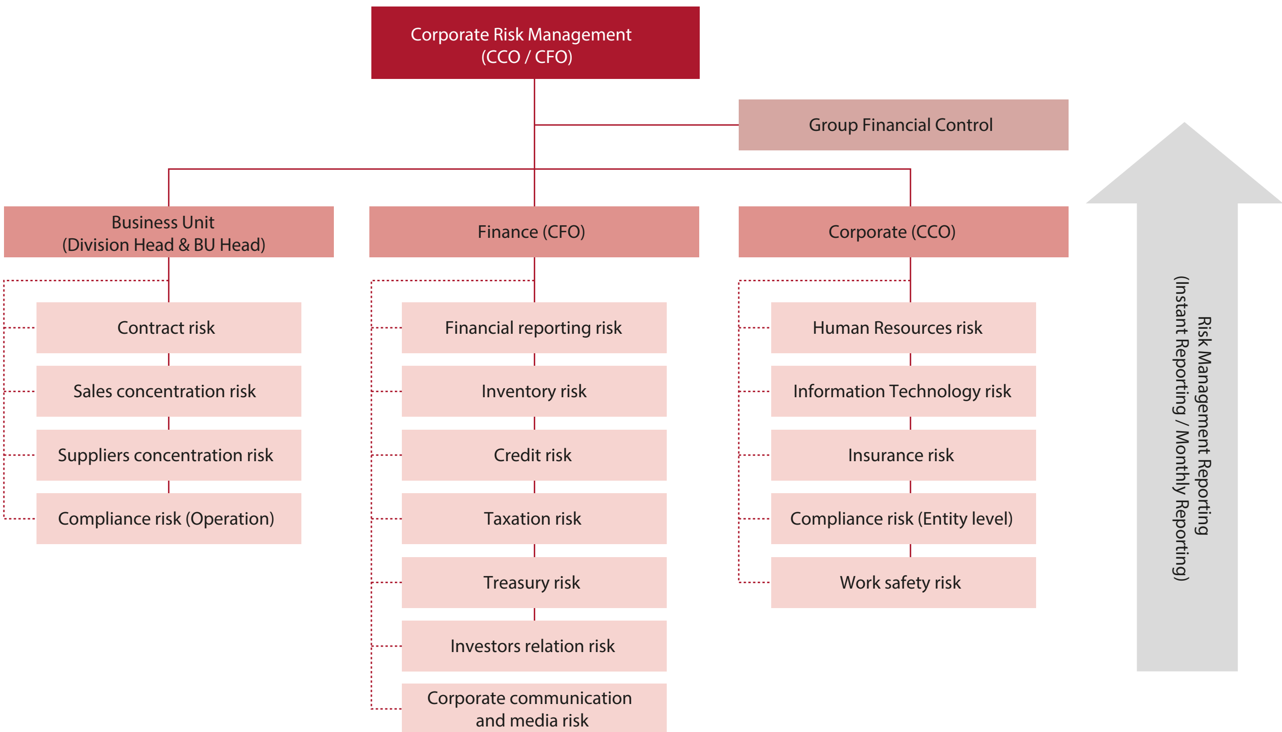
DCH's risk management process is embedded in the day-to-day operations, and covers activities such as operation activities, financing, compliance, strategy development, business planning and investment decisions. Under DCH's risk and control framework, risk management and internal control are primarily the collective responsibility of every manager and employee.

Risk assessment is conducted yearly through a top-down and bottom-up risk review process by which risks are identified and prioritized throughout the Group. Material risks are escalated and risk mitigation is adequately monitored.

Risk Management Reporting Process

Risk management reporting covers the reporting mechanism that the group puts in place for business units to report actual risk incidents, and the corporate risk management reporting structure under which business units report daily risk management activities to the responsible officers. Risk incident reporting follows instant reporting and monthly reporting mechanisms as described further below.

The corporate risk management reporting structure is illustrated as follows:



Instant Reporting Mechanism

When business unit is aware that the financial impact of any event exceeds the specified tolerance level, business unit 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 simultaneously for its overall monitoring and reporting to top management.

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.

Internal Control

DCH's internal control system covers financial, operational and compliance controls. Management is primarily responsible for the design, implementation and maintenance of internal controls. Policies and procedures are established to articulate management directives and control activities to sufficiently address risks. Such control activities include for example approvals and verifications, reviews, safeguarding of assets and segregation of duties. Our internal control self-assessment process requires the management in each active business unit to assess on annual basis, through the use of a detailed questionnaire, the effectiveness of internal control to mitigate identified key risks. Control deficiencies identified if any are timely mitigated and compensating controls are put in place as needed before satisfactory mitigation.

The audit committee has reviewed the adequacy and effectiveness of DCH's risk management and internal controls systems, including financial, operational and compliance controls. 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. Supporting documentation for the self-assessments was test checked by Group Financial Control. The results of the self-assessments were consolidated and reviewed by the audit committee.

- Internal audits 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 regards 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 Group's risk management and internal control systems are adequate and effective;
  - the resources in the accounting and finance functions are adequate and equipped with satisfactory level of qualifications and experience;
  - the training activities and budgets are adequate.

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 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 2017

The internal audit function comprised 28 audit staff members at 31 December 2017 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 approach. Pursuant to the approved annual plan, detailed audit planning for each audit, followed by field visits and discussions with management, was conducted with the use of a risk-based audit methodology. 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 2017, IAD issued internal audit reports to the audit committee with management responses covering various operational and functional units of the Group, including motor business, 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.
- Provided support to Group Financial Control in the conduct of the group-wide internal control self-assessment exercises for selected business units.
- Conducted a special contract review on the major terms of contracts entered into by the China Food business units.
- Reviewed the 2017 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, the Company 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 the Company'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 blowing 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. The Company 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. 14 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

The Company 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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. All Directors confirmed that they have complied with the required standard set out in the Model Code throughout 2017. The interests held by individual Directors in the Company's securities as at 31 December 2017 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 the Company'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

The Company 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 the Company are as follows:

Information Disclosure on Corporate Website

The Company endeavours to disclose all material information about the Group to all interested parties as widely and as timely as possible. The Company maintains a corporate website at http://www.dch.com.hk where important information about the Group 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 the Company's website.

During 2017, the Company issued announcements in respect of two connected transactions, two discloseable transactions, one business update and certain changes in the composition of the board and board committees, which can be reviewed on the Company's website.

General Meetings with Shareholders

The Company'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 the Company (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 the Company respectively on the same day as the poll.

Investor Relations

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In 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 the Company's website.

Shareholder Rights

Set out below is a summary of certain rights of the shareholders of the Company 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 per cent 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 the Company'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 the Company 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 the Company, 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 per cent 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 the Company'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 the Company 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 the Company 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 per cent 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 the Company'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 the Company at least 7 days before the meeting to which it relates.

- Proposing a candidate for election as a Director
  Article 108 of the Company'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 the Company 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 the Company during 2017.

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

NON-COMPETITION UNDERTAKING

CITIC Limited ("CITIC", a controlling shareholder of the Company) has executed a deed of non-competition dated 28 September 2007 in favour of the Company to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC and / or its associates (as defined under the then Listing Rules) are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC will not engage and will procure its subsidiaries (excluding the Company 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 the Company 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 the Company and its subsidiaries) and advised that during the year 2017, 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 the Company that it has fully complied with the terms of the non-competition undertaking. The INEDs of the Company 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 62, the Chairman and a Non-executive Director since January 2014. Mr Zhang also serves as the chairman of the nomination committee of the Company. Mr Zhang is the chairman and the president of CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company), 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 the Company), the head of the strategy and planning department of CITIC Group, an executive director of CITIC Limited ("CITIC", a controlling shareholder of the Company 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

Lai Ni Hium *Chief Executive Officer*

Aged 56, an Executive Director since June 2016. Mr Lai joined the Company as Deputy Chief Executive Officer in June 2016 and appointed as the Chief Executive Officer of the Company 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 64, 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, Limited in January 2003. Mr Lau has over 30 years experience in the motor vehicle businesses of Hong Kong and the PRC.

Lee Tak Wah

Aged 53, an Executive Director since March 2017. Mr Lee is the deputy head of Motor Group and 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. Prior to his appointment as Executive Director of the Company, Mr. Lee took up various senior positions in the Group. Mr. Lee 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.

Fung Kit Yi, Kitty *Chief Financial Officer*

Aged 54, an Executive Director since March 2017. Ms Fung is the 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 joined the Group in April 2016. Ms Fung holds a Master of Business Administration degree 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 organisations across consumer products / fast moving consumer goods, manufacturing, publishing, banking and retail industries in the United States, Greater China and Asia Pacific regions.

NON-EXECUTIVE DIRECTORS

Kwok Man Leung

Aged 49, 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. Mr Kwok is also a non-executive director of VPower Group International Holdings Limited (listed on the Stock Exchange). 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 54, a Non-executive Director since January 2010. Mr Fei is a director and the chief financial officer of CITIC Pacific, the vice chairman 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 Pacific involved in special steel, property and energy, a director of certain member companies of CITIC involved in iron ore mining, property and its interests in McDonald's mainland China and Hong Kong business (including, inter alia, Grand Food Holdings Limited), and also the chairman of the audit, compliance, risk management committee of Grand Food Holdings Limited. 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 22 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 79, an Independent Non-executive Director since September 2007. Mr Hsu also serves as the chairman of the remuneration committee of the Company. 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) until end of December 2017 and is an Honorary Fellow of Lingnan University.

Yeung Yue Man

Aged 79, 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.

Chan Kay Cheung
Aged 71, an Independent Non-executive Director since December 2012. Mr Chan is the vice chairman of The Bank of East Asia (China) Limited. Mr Chan joined The Bank of East Asia Limited ("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 Huada Technology Company Limited (formerly known as 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. He was a senior adviser of BEA and the chairman of Shaanxi Fuping BEA Rural Bank Corporation. 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 64, an Independent Non-executive Director since March 2016. Mrs Chan serves on the board of Haven of Hope Christian Service and is an executive advisor of Word of Life Ministry of the China Graduate School of Theology. She 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 until end of December 2017. 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 40 years of experience in the banking industry.

Woo Chin Wan, Raymond
Aged 63, an Independent Non-executive Director since July 2016. Mr Woo also serves as the chairman of the audit committee of the Company. Mr Woo is currently an independent non-executive director of Great Wall Pan Asia Holdings Limited (listed on the Stock Exchange) and has been appointed as an independent non-executive director of Bank of Communications Co., Ltd. (listed on the Stock Exchange and the Shanghai Stock Exchange) with effect from 27 November 2017. 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

Wu Ying Ha *Chief Corporate Officer*
Aged 54, is a 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 and legal & compliance. Prior to joining the Group, he was the vice president of CITIC Resources Holdings Limited (a fellow subsidiary of the Company listed on the Stock Exchange) and responsible for human resources, administrative management and investor relationship 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. Mr Wu has over 22 years' experience in corporate management, especially in human resources and administration.

Ho Ming Kei, Wayne
Aged 57, is a Corporate Director of the Group leading the Business Process Reengineering team under the Strategic Management Division. He joined the Company in October 1995. Mr Ho has over 20 years of experience in corporate management and business development operations. Prior to joining the Group, Mr Ho worked in investment banking groups in Hong Kong for 7 years focusing on investment research and advisory.

Lee Kai Yeung
Aged 61, is a Corporate Director of the Group and he is in charge of food trading and food manufacturing 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.

Leung Pui Ching, Betty
Aged 55, 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, food retailing and consumer product 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 purchasing 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 45, 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 20 years' experience in the China motor industry.

Lo Yuk Shun
Aged 54, 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 over 30 years experience in the motor industry.

Poon Lin Sing
Aged 51, is a Corporate Director and head of Finance of Motor Group and is primarily responsible for all financial matters of motor and motor related business in the PRC, Hong Kong and Taiwan. He is also the head of Strategic Management overseeing 4 designated teams namely Strategic Planning & Business Process Re-engineering, Merger & Acquisition and Customer Management. Mr Poon joined the Group in August 1996 and has over 20 years experience in finance and accounting profession.

Wong Ming Yin
Aged 56, 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 the Group's 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.

Timothy John Collins
Age 49, is the Chief Executive Officer of DCH Auriga Healthcare and IMSA Southeast Asia region. He joined Li and Fung Asia ("LF Asia") in 2004 and has been essential to LF Asia's development, leading the expansion of market coverage across Asia and orchestrating the recent acquisition of LF Asia to DCH in June 2016. Prior to joining the Group, Mr Collins has over 25 years of experience in fast moving consumer goods and healthcare industries.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company have pleasure in presenting to shareholders their report for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

DCH is an integrated motor and consumer products distribution company operating in Asia with an extensive logistics network. DCH is a leading distributor and dealer of motor vehicles in Greater China and provides of a full range of motor related services including maintenance, rental, repair and financing. DCH's consumer products business includes the distribution of food and fast moving consumer goods, healthcare and electronic products as well as food manufacturing, trading and retail.

SUBSIDIARY COMPANIES

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

BUSINESS REVIEW

A detailed review on business performance of the Group for the year ended 31 December 2017, 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 6 to 9), "Business Review" (pages 11 to 24) and "Risk Management" (pages 32 to 35) of this 2017 Annual Report, the discussions thereof form part of this Report of the Directors.

DIVIDENDS

The Directors declared an interim dividend (with scrip option) of 5.05 HK cents (2016: 4.75 HK cents) per share in respect of the year ended 31 December 2017 which was paid on 24 October 2017. The Directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting to be held on 23 May 2018 (the "2018 AGM"), the payment of a final dividend of 11.90 HK cents (2016: 3.69 HK cents) per share in respect of the year ended 31 December 2017 to shareholders whose names appear on the register of members at the close of business on 31 May 2018.

The Directors propose that shareholders be given the option to receive the final dividend in new shares in lieu of cash. The scrip dividend scheme is subject to (1) the approval of the proposed final dividend at the 2018 AGM; and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant to the scrip dividend scheme. A circular containing details of the scrip dividend scheme will be despatched to shareholders together with the form of election for scrip dividend on or about 11 June 2018. It is expected that the final dividend warrants and share certificates for the scrip dividend will be despatched to shareholders on or about 18 July 2018.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$2.0 million (2016: HK$1.9 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 revenue. 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	
	2017	2016
The largest supplier	**10.8%**	9.7%
Five largest suppliers in aggregate	**36.0%**	33.7%

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

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2017 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 Lai Ni Hium
Mr Lau Sei Keung
Mr Lee Tak Wah *(appointed with effect from 1 March 2017)*
Ms Fung Kit Yi, Kitty *(appointed with effect from 1 March 2017)*
Mr Yip Moon Tong *(retired with effect from 1 March 2017)*

Non-executive Directors

Mr Zhang Jijing
Mr Kwok Man Leung
Mr Fei Yiping

Independent non-executive Directors

Mr Hsu Hsung, Adolf
Professor Yeung Yue Man
Mr Chan Kay Cheung
Mrs Chan Hui Dor Lam, Doreen
Mr Woo Chin Wan, Raymond

Biographical details of the Directors are set out on pages 77 to 80 of this 2017 Annual Report.

In accordance with Article 104(A) of the Articles of Association of the Company, Messrs Kwok Man Leung, Fei Yiping, Chan Kay Cheung and Mrs Chan Hui Dor Lam, Doreen shall retire by rotation from the Board at the 2018 AGM and, all being eligible, offer themselves for re-election.

The list of directors who have served on the boards of the subsidiaries of the Company during the financial year ended 31 December 2017 and up to the date of this report is available on the Company's website at www.dch.com.hk under "About DCH" section.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

The Company entered into an administrative services agreement with CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company) on 28 August 2014, pursuant to which the Company 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. At the request of the Company, CITIC Pacific has agreed to discontinue the tax compliance services with effect from 1 January 2018. The charges payable by the Company under the agreement will be determined based on cost of the services and the time spent by CITIC Pacific and calculated in proportion to their departmental charges.

Charges paid by the Company for the above services to CITIC Pacific for the year ended 31 December 2017 was HK$11.1 million (2016: HK$11.1 million).

CITIC Limited ("CITIC", a controlling shareholder of the Company) has executed a deed of non-competition dated 28 September 2007 in favour of the Company to the effect that at any time during which the shares of the Company are listed on the Stock Exchange 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 the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), (i) CITIC will not engage and will procure its subsidiaries (excluding the Company 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 the shares of the Company. Such issues include taxation claims, defects in titles of properties, leakage of assets resulting from the contractual arrangements with the registered owners of those PRC companies through which the Group conducts its operations in the industries that have foreign ownership restrictions, failure to the payment of social security and housing accumulations funds, failure to obtain business operating licences and permits. No claim has been made by the Group against CITIC pursuant to the indemnity during the financial year ended 31 December 2017.

Apart from the above and the transactions as mentioned in the sections headed "Connected Transactions" and "Continuing Connected Transactions" in this report, none of the Company and its subsidiaries entered into any other contract of significance with the Company's controlling shareholders or their subsidiaries which were subsisting during the financial year ended 31 December 2017.

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 the Company 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 "Connected Transactions" or "Continuing Connected Transactions" under the Listing Rules as summarised below.

CONNECTED TRANSACTIONS

During 2017, the Group has entered into the following non-exempt connected transactions which were subject to the reporting and announcement requirements only under Chapter 14A of the Listing Rules.

On 23 October 2017, DCH Tamar LP 1 Limited ("DCH LP", an indirect wholly-owned subsidiary of the Company) and the Tamar Alliance GP 1 Limited (the "General Partner"), on behalf of Tamar Alliance Partners Fund I, L.P. (the "Tamar Alliance Fund"), entered into an subscription agreement ("DCH Fund Subscription Agreement"), pursuant to which DCH LP as a limited partner of Tamar Alliance Fund has agreed to make a capital commitment of US$35 million (equivalent to approximately HK$273 million) to Tamar Alliance Fund. The capital commitment shall be payable in cash on such date as determined by the General Partner.

Tamar Alliance Fund was established by the General Partner in the Cayman Islands as an exempted limited partnership, with the investment objective to seek long term capital appreciation through investments in companies that in the consumer and healthcare sectors positioned to benefit from the growth in consumption driven by the rising middle classes and ageing populations of Greater China and Southeast Asia.

The General Partner is wholly-owned by Tamar Alliance Holdings Limited ("GP Holdco"). The shareholding interests of GP Holdco is held as to 50% by DCH Tamar Holding Limited ("DCH Holdco", an indirect wholly-owned subsidiary of the Company) and 50% by City Victory Company Limited ("CP Holdco", an indirect wholly-owned subsidiary of CITIC).

On 23 October 2017, DCH Holdco, CP Holdco and GP Holdco entered into a shareholders' agreement ("GP Holdco Shareholders' Agreement"), whereby each of DCH Holdco and CP Holdco undertakes to provide to the GP Holdco further capital or financing of up to US$5 million (equivalent to approximately HK$39 million) on a 50:50 basis to meet the funding requirements of GP Holdco or the General Partner for its capital commitment to Tamar Alliance Fund.

The entering into the DCH Fund Subscription Agreement and the GP Holdco Shareholders' Agreement is strategically beneficial and will enable DCH to (i) increase exposure to growing market opportunity; (ii) build a more sustainable business; and (iii) capture more value.

As each of CP Holdco and the General Partner is an indirect subsidiary of CITIC, a controlling shareholder of the Company, and each of CP Holdco and the General Partner is therefore a connected person of the Company. Accordingly, the entering into of the DCH Fund Subscription Agreement (where the General Partner is a party) and the GP Holdco Shareholders' Agreement (where each of CP Holdco and GP Holdco is a party) constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During 2017, 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, the Company 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 the Company for payments to independent third parties)) payable under the Tenancy Agreements for the financial years ended 31 December 2017 and ending 31 December 2018 is approximately 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$215.0 million which did not exceed the capped amount.

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

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 the Company), on normal commercial terms. On 21 August 2015, the Company 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 year ended 31 December 2017 would not exceed RMB240.0 million.

   In 2017, the maximum aggregate balances of bank deposits maintained by the Group with CITIC Bank totalled approximately RMB81.0 million, which did not exceed the capped amount on any given day.

   To continue to maintain balance of bank deposits with CITIC Bank on normal commercial terms in the ordinary and usual course of business, and to enable the Group to make use of the RMB cross border cash pooling services and other banking services of CITIC Bank in the coming years, on 29 December 2017, the Company entered into a new 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 each of the three years ending 31 December 2018, 2019 and 2020 would not exceed RMB240.0 million.

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 the Company as a whole.

The Company'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 on pages 85 to 86 of the 2017 Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter will be provided by the Company 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 the Company, and therefore such Contractual Arrangements would technically constitute connected transactions of the Company and, unless an exemption is available under the Listing Rules, must comply with the applicable announcement, reporting and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

Details of the Contractual Arrangements in place during the year ended 31 December 2017 are set out below:

	Name of OPCO	Date of establishment of OPCO	Registered Capital (Note vii)	Name of Registered Owner(s)/owner(s) and shareholding	Amount of loan advanced under the Contractual Arrangements Agreement(s)	Name of OPCO Interest Beneficiary (Note viii)	Group's attributable interests
			RMB million		RMB million		
1	上海上昌工貿有限公司 (Shanghai Shangchang Industry and Trading Limited) (Note i)	26.12.2000	5.88	王靜芬 (Wang Jingfen) (60%) 許學華 (Xu Xuehua) (40%)	– –	Dah Chong Hong (China) Limited	100%
2	上海宏圖電器有限公司 (Shanghai Vision Electrical Appliances Co., Ltd.) (Note ii)	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	廣東喜龍汽車俱樂部有限公司 (100%) (Note iii)	–	–	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 iv)
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) (100%) (Note v)	–	–	100%
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 vi)

Notes:

i. The company was dissolved during the year.

ii. During the year, the company was in the process of dissolution. The company was dissolved on 16 January 2018.

iii. During the year, 50% shareholding held by Registered Owner was disposed to 廣東喜龍汽車俱樂部有限公司, a third party. Since then, the Contractual Arrangement ceased to apply to this company as it was no longer an OPCO and subsidiary of the Group.

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

v. During the year, 20% shareholding held by 廣東日產汽車貿易有限公司 (Guangdong Nissan Motor Trading Co., Ltd.) as Registered Owner (in which 0.02% of equity contribution is held under the Contractual Arrangement) was transferred to 湛江市駿凱汽車技術服務有限公司 (Zhanjiang Junkai Motors Technology and Service Limited). Since then, the Contractual Arrangement ceased to apply to this subsidiary as it was no longer an OPCO.

vi. 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.

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

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

ix. 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 2017 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.

The Company'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 the Company dated 28 September 2007. A copy of the auditor's letter will be provided by the Company to the Stock Exchange.

EQUITY-LINKED ARRANGEMENTS

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 ("CRBC"). He remains as a non-executive director of CRBC. He also holds less than 0.01% interest in CRBC. CRBC and its subsidiaries is primarily a beer business. He also holds directorships in China Resources Kirin Beverages (Greater China) Company Limited and two of its subsidiaries which engage 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 and logistics, 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 the Company and has acted and will continue to act in the best interest of the Company and its shareholders as a whole. Therefore, the extent to which the two businesses 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

The Company 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 the Company'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 the Company shall not in aggregate exceed 10% of (i) the shares of the Company in issue immediately following the commencement of dealings in the Company's shares on the Stock Exchange or (ii) the shares of the Company in issue from time to time, whichever is the lower. As at 8 March 2018, the maximum number of shares available for issue under the Scheme is 139,550,000, representing approximately 7.56% of the issued shares of the Company. Share options lapsed in accordance with the terms of the Scheme or any other schemes of the Company will not be counted for the purpose of calculating the 10% limit.

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

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

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

g. The subscription price determined by the Board will not be less than whichever is the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; and (ii) the average closing price of the Company'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 was valid and effective till 27 September 2017, after which no further share options will be granted.

During the period between the adoption of the Scheme and its expiry, the Company 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 the Company immediately before the grant on 8 June 2012 was HK$7.49 per share. The share options expired by the close of business on 7 June 2017.

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 the Company immediately before the grant on 30 April 2014 was HK$4.91 per share. The remaining contractual life of the share options is 1.3 years.

During the year ended 31 December 2017, 22,650,000 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 2017 is as follows:

1. Directors

Name of Director	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Reclassification	Lapsed/ cancelled during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Balance as at 31.12.2017	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) (Notes 2 & 6)	–	–	–	
	30.4.2014	30.4.2015 – 29.4.2019	4.93	1,800,000	–	(1,800,000) (Notes 2 & 4)	–	–	–	
				3,600,000					N/A	N/A
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					1,450,000	0.079%
Lee Tak Wah	8.6.2012	8.6.2013 – 7.6.2017	7.40	–	–	400,000 (Note 3)	(400,000)	–	–	
	30.4.2014	30.4.2015 – 29.4.2019	4.93	–	–	900,000 (Note 3)	–	–	900,000	
									900,000	0.049%

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

Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Reclassification	Lapsed/ cancelled during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Balance as at 31.12.2017	Approximate percentage to the number of issued shares
8.6.2012	8.6.2013 – 7.6.2017	7.40	10,250,000 (Note 4)	–	1,200,000 (Notes 2, 3 & 5)	(11,450,000)	–	– (Note 6)	–
30.4.2014	30.4.2015 – 29.4.2019	4.93	15,000,000 (Note 4)	–	(2,500,000) (Notes 2, 3 & 5)	(1,550,000)	–	10,950,000 (Note 5)	0.593%

3. Others *(Note 1)*

Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Reclassification	Lapsed/ cancelled during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Balance as at 31.12.2017	Approximate percentage to the number of issued shares
			Number of share options						
8.6.2012	8.6.2013 – 7.6.2017	7.40	7,600,000 *(Note 4)*	–	200,000 *(Note 5)*	(7,800,000)	–	– *(Note 6)*	–
30.4.2014	30.4.2015 – 29.4.2019	4.93	6,250,000 *(Note 4)*	–	3,400,000 *(Notes 2 & 5)*	–	–	9,650,000 *(Notes 2 & 5)*	0.522%

Notes:

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

2 Subsequent to the retirement of Mr Yip Moon Tong as an executive Director of the Company on 1 March 2017, 1,800,000 share options (granted on 8 June 2012) were reclassified from "Directors" to "Employees of the Group working under continuous contracts (as defined in the Employment Ordinance), other than Directors" as he remained as an employee until 30 June 2017. The options lapsed on the close of business on 7 June 2017. 1,800,000 share options (granted on 30 April 2014) were reclassified from "Directors" to "Others" after his retirement.

3 Mr Lee Tak Wah was appointed as a Director of the Company with effect from 1 March 2017. 400,000 share options (granted on 8 June 2012) and 900,000 share options (granted on 30 April 2014) were reclassified from "Employees of the Group working under continuous contracts (as defined in the Employment Ordinance), other than Directors" to "Directors".

4 1,800,000 share options (granted on 8 June 2012) and 1,800,000 share options (granted on 30 April 2014) were reclassified to the opening balance of "Others", subsequent to certain employees having retired on 1 January 2017.

5 200,000 share options (granted on 8 June 2012) and 3,400,000 share options (granted on 30 April 2014) were reclassified to "Others", subsequent to certain employees having retired during the year ended 31 December 2017.

6 The share options expired by the close of business on 7 June 2017.

UPDATE ON DIRECTORS' INFORMATION

The following disclosures are made pursuant to Rule 13.51B(1) of the Listing Rules.

The latest information regarding the monthly salary of the executive Directors under their respective service contracts as senior management is set out below:

Name of executive Director	**Monthly salary commencing in January 2018** HK$	Monthly salary commencing in January 2017 HK$
Lai Ni Hium	**416,000**	400,000
Lau Sei Keung	**254,600**	254,600
Lee Tak Wah *(Note iv)*	**231,000**	210,000
Fung Kit Yi, Kitty *(Note iv)*	**262,500**	250,000

Notes:

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

ii. The discretionary bonus of the executive Directors continues to be subject to the performance of DCH and the individual for the year ending 31 December 2018.

iii. For information regarding the full details of Directors' remuneration for the year ended 31 December 2017, please refer to note 9 to the financial statements.

iv. Mr Lee Tak Wah and Ms Fung Kit Yi, Kitty were appointed as Directors of the Company with effect from 1 March 2017.

DIRECTORS' INTERESTS IN SECURITIES

The interests of the Directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 2017 as recorded in the register required to be kept under section 352 of the SFO were as follows:

1. Shares in the Company

Name of Director	Number of shares Personal interests	Approximate percentage to the number of issued shares
Lai Ni Hium	557,191	0.030%
Lau Sei Keung	380,000	0.021%
Lee Tak Wah	100,000	0.005%
Fung Kit Yi, Kitty	450,000	0.024%

2. Shares in Associated Corporations

(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%
Lee Tak Wah	15,000	0.000052%
Fung Kit Yi, Kitty	6,000	0.000021%

(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%

(c) China CITIC Bank Corporation Limited

Name of Director	Number of shares Family interests	Approximate percentage to the number of issued shares
Lee Tak Wah	4,000	0.000027%

3. Share Options in the Company

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

4. Shares Options in Associated Corporation

CITIC Telecom International Holdings Limited

				Number of share options					
Name of Director	Date of grant	Exercise period	Exercise price per share	Balance as at 1.1.2017	Granted during the year ended 31.12.2017	Lapsed/ cancelled during the year ended 31.12.2017	Exercised during the year ended 31.12.2017	Balance as at 31.12.2017	Approximate percentage to the number of issued shares
			HK$						
Fei Yiping	24.3.2017	24.3.2018 – 23.3.2023	2.45	–	500,000	–	–	500,000	
	24.3.2017	24.3.2019 – 23.3.2024	2.45	–	500,000	–	–	500,000	
				–				1,000,000	0.028%

Note: The share options were granted by CITIC Telecom International Holdings Limited.

5. Debentures in Associated Corporation

Mr Lee Tak Wah, an executive Director, had a personal interest in US$200,000 principal amount of 6.875% notes due 2018 issued by CITIC.

Save as disclosed above, as at 31 December 2017, 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 the Company or its associated corporations or any interests which were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which were required to be notified to the Company 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 the Company, 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, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the interests of the substantial shareholders, other than the Directors or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	Number of shares of the Company	Approximate percentage to the number of issued shares
CITIC Group Corporation	1,040,740,191	56.35%
CITIC Limited	1,040,740,191	56.35%
CITIC Pacific Limited	1,040,740,191	56.35%
Davenmore Limited	1,032,121,953	55.88%
Colton Pacific Limited	811,395,156	43.93%
Chadacre Developments Limited	248,306,984	13.44%
Ascari Holdings Ltd.	220,726,797	11.95%
Cornaldi Enterprises Limited	96,563,782	5.23%

Ascari Holdings Ltd. was deemed to be interested in 220,726,797 shares through Silver Ray Enterprises Inc. as to 56,608,465 shares, Grogan Inc. as to 82,059,166 shares and Greenlane International Holdings Inc. as to 82,059,166 shares.

Colton Pacific Limited beneficially held 383,755,465 shares and was deemed to be interested in 427,639,691 additional shares held by Chadacre Developments Limited as to 248,306,984 shares, Cornaldi Enterprises Limited as to 96,563,782 shares, Corton Enterprises Limited as to 55,179,217 shares, Dashing Investments Limited as to 13,794,854 shares and Karaganda Limited as to 13,794,854 shares.

Davenmore Limited was deemed to be interested in 1,032,121,953 shares as Colton Pacific Limited and Ascari Holdings Ltd. were its wholly-owned subsidiaries.

CITIC Pacific was deemed to be interested in 1,040,740,191 shares through its direct wholly-owned subsidiary, Davenmore Limited as to 1,032,121,953 shares and its indirect wholly-owned subsidiary, Hainsworth Limited as to 8,618,238 shares.

CITIC was deemed to be interested in 1,040,740,191 shares through its direct wholly-owned subsidiary, CITIC Pacific.

CITIC Group Corporation was deemed to be interested in 1,040,740,191 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 the Company issued during the year are set out in note 28 to the financial statements.

The shares issued during the year were in lieu of cash dividends for interim dividend declared for the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2017. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2017.

SERVICE CONTRACTS

As at 31 December 2017, 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 2018 AGM.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company 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. The Company 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 2018 AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-election of KPMG as auditor of the Company is to be proposed at the 2018 AGM.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2017.

By order of the Board

Zhang Jijing
Chairman

Hong Kong, 8 March 2018

Financial Statements

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 (collectively the "Group") set out on pages 104 to 192, which comprise the consolidated statement of financial position as at 31 December 2017, 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 consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated 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	How the matter was addressed in our audit
As at 31 December 2017, the Group held significant motor, food, healthcare and consumer products inventories with a total carrying value of HK$6,891 million. A net write-down of inventories of HK$46 million was recognised in the consolidated statement of profit or loss for the year ended 31 December 2017. Sales of these inventories can be volatile due to changing consumer demands and the current economic environment affecting consumer spending and, 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 and healthcare 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 which involves management's assessment of the net realisable value of inventories and estimate of the returns of slow-moving inventories to suppliers.	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 and healthcare inventories, assessing the appropriate expiry date category by comparing expiry dates to the expiry information marked or tagged on the food and healthcare 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 and the prices at which they are returned; • 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)

Recoverability of receivable balances from suppliers for consumer products business segment

Refer to Note 22 to the consolidated financial statements and the accounting policies in Notes 1(f) 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 revenue of the Group's consumer products business amounted to HK$16,408 million which represented 32% of the Group's consolidated revenue for the year ended 31 December 2017. This segment is 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.

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.

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 recoverability of receivable balances from suppliers for the consumer products business segment 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.

How the matter was addressed in our audit

Our audit procedures to assess the recoverability of receivable balances from suppliers for the consumer products business segment included the following:

- inspecting major distribution agreements entered into or renewed by the Group during the year ended 31 December 2017 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 the 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 2017 and assessing whether these returns were accepted by the 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 2017;
- 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)

Accounting for the acquisitions of motor businesses in mainland China ("PRC motor businesses")

Refer to Note 30 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
On 31 August 2017, the Group completed the acquisitions of several PRC motor businesses with a total consideration of HK$1,355 million. Further details are set out in Note 30 to the consolidated financial statements. Goodwill arising from these acquisitions amounted to HK$332 million, which represented the excess of the consideration paid over the Group's share of the fair values of the identifiable net assets, including the intangible assets of car dealerships amounting to HK$818 million, of the acquired businesses. The fair values of the identifiable assets and liabilities acquired in these transactions were assessed by the directors based on certain independent valuations 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. We identified the accounting for the acquisitions of these businesses as a key audit matter because of the significant impact the acquisitions have 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 acquisitions of PRC motor businesses included the following: • inspecting the sale and purchase agreements and evaluating management's accounting treatment for the acquisitions with reference to the terms set out in the sale and purchase agreements; • obtaining and inspecting the valuation assessments prepared by the external valuers engaged by the Group and on which the directors' assessment of the fair values of the assets and liabilities acquired was based; • assessing the external valuers' qualifications, experience and expertise in the assets and liabilities 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 plans supporting the acquisitions; • 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; • assessing the disclosures in the consolidated financial statements in respect of the acquisitions with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Assessing potential impairment of goodwill and intangible assets

Refer to Notes 15 and 16 to the consolidated financial statements and the accounting policies in Notes 1(e), (k) and (m)(ii).

The Key Audit Matter	How the matter was addressed in our audit
The Group has significant balances of goodwill and intangible assets amounting to HK$2,760 million and HK$1,880 million respectively as at 31 December 2017. Management performs impairment testing of goodwill and intangible assets when indicators of potential impairment are identified. In addition, goodwill impairment assessment is performed by management annually whether or not there is any indication of impairment. Management performs impairment testing by using the value in use method and preparing discounted cash flow forecasts, which involves the exercise of significant management judgement and estimation, particularly in relation to forecasting revenue and operating profits, and determining the discount rates applied to estimate the net present value of the future operating cash flows. We identified assessing potential impairment of goodwill and intangible assets as a key audit matter because the carrying values of these assets are material to the consolidated financial statements and because the impairment assessments prepared by management are complex and 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 potential impairment of goodwill and intangible assets included the following: • evaluating the Group's impairment assessment models, which included the allocation of goodwill and intangible assets to cash generating units and evaluation of indicators of impairment of intangible assets, were prepared in accordance with the requirements of the prevailing accounting standards; • with the assistance of our internal valuation specialists, evaluating the methodology adopted by management in the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing whether the discount rates applied were within the range adopted by other companies in the same industry; • evaluating the key assumptions adopted by management in their preparation of the discounted cash flow forecasts, including forecast revenue growth, forecast operating profits, by comparing with the financial budgets which were approved by management, our understanding, experience and knowledge of the Group's businesses and future business plans; • comparing the key assumptions included in the discounted cash flow forecasts made in prior year with the current year's performance to assess the reliability of management's forecasting process and making enquiries of management as to the reasons for any significant variations identified; • obtaining from management sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • assessing the disclosures in the consolidated financial statements in respect of the impairment assessments of goodwill and intangible assets 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.

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.

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

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.

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 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
8 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

HK$ million	Note	2017	2016
Revenue	3	**50,506**	46,462
Cost of sales		**(44,312)**	(41,001)
Gross profit		**6,194**	5,461
Other net income	5	**1,043**	787
Net gain on disposal of subsidiaries	6(a)	**16**	249
Net gain on disposal of an associate	6(b)	**–**	89
Selling and distribution expenses		**(3,908)**	(3,416)
Administrative expenses		**(1,918)**	(2,105)
Profit from operations		**1,427**	1,065
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)	**7**	3
Net gain on remeasurement of financial assets at fair value through profit or loss	19	**16**	–
Finance costs	7(a)	**(193)**	(189)
Share of profit after tax of associates	17	**14**	11
Share of profit after tax of joint ventures	18	**21**	19
Profit before taxation	7	**1,292**	1,097
Income tax	8	**(354)**	(465)
Profit for the year		**938**	632
Attributable to:			
Shareholders of the Company		**802**	511
Non-controlling interests		**136**	121
		938	632
Basic and diluted earnings per share (HK cents)	12	**43.71**	27.89

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

HK$ million	Note	2017	2016
Profit for the year		**938**	632
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside Hong Kong:			
– subsidiaries		**722**	(651)
– associates and joint ventures		**25**	(31)
Effect on cash flow hedge, net of tax		**12**	(9)
Reserves released upon disposal of subsidiaries		**3**	11
Reserves released upon disposal of an associate		**–**	(6)
Item 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)	**1**	11
Other comprehensive income / (loss) for the year, net of tax		**763**	(675)
Total comprehensive income / (loss) for the year		**1,701**	(43)
Attributable to:			
Shareholders of the Company		**1,521**	(121)
Non-controlling interests		**180**	78
		1,701	(43)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

HK$ million	Note	2017	2016
Non-current assets			
Property, plant and equipment	13(a)	**3,784**	3,318
Investment properties	13(a)	**229**	215
Lease prepayments	14	**858**	499
Intangible assets	15	**1,880**	1,154
Goodwill	16	**2,760**	2,403
Interests in associates	17	**214**	175
Interests in joint ventures	18	**347**	364
Other non-current assets	19	**870**	464
Deferred tax assets	27(a)	**84**	102
		11,026	8,694
Current assets			
Inventories	20(a)	**6,891**	7,161
Asset held for sale	21	**4**	366
Trade debtors and other receivables	22	**8,148**	8,013
Current tax recoverable		**44**	21
Cash and bank deposits	23	**1,138**	1,160
		16,225	16,721
Current liabilities			
Borrowings	24	**2,864**	2,357
Trade creditors and other payables	25	**8,442**	7,918
Current tax payable		**283**	156
		11,589	10,431
Net current assets		**4,636**	6,290
Total assets less current liabilities		**15,662**	14,984
Non-current liabilities			
Borrowings	24	**4,063**	5,067
Other non-current liabilities	26	**338**	251
Deferred tax liabilities	27(a)	**549**	422
		4,950	5,740
Net assets		**10,712**	9,244

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2017

HK$ million	Note	2017	2016
Capital and reserves	28		
Share capital		**1,535**	1,477
Other reserves		**8,610**	7,255
Total equity attributable to shareholders of the Company		**10,145**	8,732
Non-controlling interests		**567**	512
Total equity		**10,712**	9,244

Approved and authorised for issue by the board of directors on 8 March 2018.

Zhang Jijing
Director

Lai Ni Hium
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to shareholders of the Company												
HK$ million	Note	Share capital (28(a))	General reserve (28(b))	Capital reserve (28(c))	Statutory surplus reserve (28(d))	Merger reserve (28(e))	Share option reserve (28(f))	Exchange fluctuation reserve (28(g))	Asset revaluation reserve (28(h))	Hedging reserve (28(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	28(b)*(iii)*	–	22	–	–	–	–	–	–	–	–	22	–	22
Fair value adjustment on put option written on non-controlling interests	28(b)*(iii)*	–	(18)	–	–	–	–	–	–	–	–	(18)	–	(18)
Capital injection from holders of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	2	2
Business combination		–	–	–	–	–	–	–	–	–	–	–	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 STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2017

		Attributable to shareholders of the Company												
HK$ million	Note	Share capital (28(a))	General reserve (28(b))	Capital reserve (28(c))	Statutory surplus reserve (28(d))	Merger reserve (28(e))	Share option reserve (28(f))	Exchange fluctuation reserve (28(g))	Asset revaluation reserve (28(h))	Hedging reserve (28(i))	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2017		1,477	86	143	88	(43)	80	(455)	37	(9)	7,328	8,732	512	9,244
Profit for the year		-	-	-	-	-	-	-	-	-	802	802	119	921
Other comprehensive income		-	-	-	-	-	-	706	1	12	-	719	44	763
Total comprehensive income for the year		-	-	-	-	-	-	706	1	12	802	1,521	163	1,684
Fair value adjustment on put options written on non-controlling interests	28(b)*(iii)*	-	3	-	-	-	-	-	-	-	-	3	-	3
Acquisition of subsidiaries from non-controlling interests		-	(5)	-	-	-	-	-	-	-	-	(5)	1	(4)
Capital injection from holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	8	8
Disposal of a subsidiary		-	-	-	(1)	-	-	-	-	-	1	-	(6)	(6)
Shares issued in respect of scrip dividends	28(a)	58	-	-	-	-	-	-	-	-	-	58	-	58
Share-based payments	7(b)	-	-	-	-	-	(3)	-	-	-	-	(3)	-	(3)
Lapse of share options		-	-	-	-	-	(50)	-	-	-	50	-	-	-
Transfer (to) / from retained profits	28(b)*(iv)*	-	(36)	-	11	-	-	-	-	-	25	-	-	-
Dividends	11	-	-	-	-	-	-	-	-	-	(161)	(161)	-	(161)
Dividends to holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(111)	(111)
At 31 December 2017		1,535	48	143	98	(43)	27	251	38	3	8,045	10,145	567	10,712

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

HK$ million	Note	2017	2016
Operating activities			
Profit before taxation		**1,292**	1,097
Adjustments for			
Net (gain) / loss on			
– remeasurement of an investment property reclassified as asset held for sale		**–**	(188)
– remeasurement of investment properties		**(7)**	(3)
– remeasurement of financial assets at fair value through profit or loss		**(16)**	–
– disposal of property, plant and equipment		**(64)**	15
– disposal of subsidiaries		**(16)**	(249)
– disposal of an associate		**–**	(89)
– disposal of joint ventures		**2**	–
Net provision / (reversal) of impairment losses on			
– property, plant and equipment		**21**	6
– intangible assets		**20**	6
– goodwill		**–**	5
– amounts due from joint ventures		**(54)**	11
– trade debtors and other receivables		**73**	210
Depreciation and amortisation		**581**	581
Finance costs		**193**	189
Interest income		**(14)**	(11)
Share of profit after tax of associates		**(14)**	(11)
Share of profit after tax of joint ventures		**(21)**	(19)
Share-based payments		**(3)**	6
Net fair value loss on foreign currency forward contracts		**1**	2
Foreign exchange loss		**26**	56
Operating profit before changes in working capital		**2,000**	1,614
Decrease in inventories		**659**	1,039
Decrease / (increase) in trade debtors and other receivables		**198**	(120)
(Decrease) / increase in trade creditors and other payables		**(455)**	67
Cash generated from operations		**2,402**	2,600
Income tax paid		**(397)**	(366)
Net cash generated from operating activities		**2,005**	2,234

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2017

HK$ million	Note	2017	2016
Investing activities			
Payment for purchase of property, plant and equipment		**(797)**	(645)
Payment for lease prepayments		**–**	(1)
Proceeds from disposal of an investment property held for sale	21	**346**	–
Proceeds from disposal of property, plant and equipment		**295**	197
Net advance from joint ventures		**94**	24
Net advance to associates		**(2)**	–
Net cash outflow for business combinations	30	**(720)**	(2,096)
Net cash outflow for business combination in previous year		**(80)**	–
Net cash outflow for acquisition of associates		**(4)**	–
Net cash inflow from disposal of subsidiaries		**26**	217
Net cash inflow from disposal of a subsidiary in previous year	6(a)	**244**	–
Net cash inflow from disposal of an associate	6(b)	**–**	241
Net cash inflow from disposal of joint ventures		**13**	–
Payment for contingent consideration payable		**(5)**	(5)
Payment for subscription of convertibles notes	19	**(47)**	–
Capital injection from holders of non-controlling interests		**8**	2
Capital injection to joint ventures		**–**	(31)
Capital injection to associates		**(9)**	(14)
Interest received		**14**	11
Dividends received from an associate		**3**	24
Dividends received from joint ventures		**–**	33
Decrease in deposits with banks		**10**	44
Net cash used in investing activities		**(611)**	(1,999)
Financing activities			
Proceeds from bank and other loans	23(b)	**12,297**	13,123
Repayment of bank and other loans	23(b)	**(13,437)**	(12,233)
Repayment of loans to newly acquired subsidiaries' former related parties		**–**	(480)
Tax indemnity from an intermediate holding company	8(a)*(i)*	**–**	22
Acquisition of subsidiaries from non-controlling interests		**(4)**	–
Net advance from / (repayment to) holders of non-controlling interests	23(b)	**56**	(49)
Interest paid	23(b)	**(192)**	(205)
Dividends paid to shareholders of the Company		**(103)**	(204)
Dividends paid to holders of non-controlling interests		**(111)**	(27)
Net cash used in financing activities		**(1,494)**	(53)
Net (decrease) / increase in cash and cash equivalents		**(100)**	182
Cash and cash equivalents at 1 January		**1,042**	909
Effect of foreign exchange rates changes		**71**	(49)
Cash and cash equivalents at 31 December	23(a)	**1,013**	1,042

The reconciliation of liabilities / assets arising from financing activities is disclosed in Note 23(b).

NOTES TO THE FINANCIAL STATEMENTS

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 HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. Adoption of these developments does not result in a significant impact of the Group's results of operations and financial position for the current or comparative periods nor any significant change in the Group's accounting policies. However, additional disclosure is included in Note 23 to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative,* which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities / assets arising from financing activities, including both changes arising from cash flows and non-cash changes.

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.

An investment in subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. 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 equity in a subsidiary not attributable directly or indirectly to the Group, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests 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.

Non-controlling interests with a put option written or forward contract entered into 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 for put option liabilities and forward liabilities being recognised in the Group's other comprehensive income and profit or loss respectively.

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 adjustments are made to goodwill and no 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, unless it is classified as held for sale (see Note 1(n)), 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 a financial asset.

(e) Goodwill

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests 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 (see Note 1(m)*(ii)*). Goodwill is allocated to each of the Group's cash-generating unit ("CGU"), or groups of CGU, that is expected to benefit from synergies of the combination, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets

The Group classifies its financial assets in the following categories:

– financial assets at fair value through profit or loss ("FVTPL"),

– held-to-maturity investments,

– available-for-sale financial assets, and

– loans and receivables.

(i) Classification and measurement

Financial assets 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 for financial assets at FVTPL, where such transaction costs are expensed in profit or loss. Financial assets are subsequently accounted for as follows, depending on their classification:

– *financial assets at FVTPL*

For financial assets designated to be measured at FVTPL, the fair value is remeasured at the end of each reporting period, with any resultant gain or loss being recognised in profit or loss. They are presented as current assets if they are expected to be redeemed or converted within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. Interest income from financial assets at FVTPL is included in interest income. Fair value is determined in the manner set out in Note 31(e).

– *held-to-maturity investments*

Dated debt securities that the Group has 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)*). They are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets. Held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(i) Classification and measurement (continued)

– *available-for-sale financial assets*

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long term. They are presented as non-current assets unless they are mature, or management intends to dispose of them within 12 months of the end of the reporting period. 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.

– *loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of "finance lease receivables", "trade debtors and other receivables" and "cash and bank deposits". Loans and receivables are subsequently carried at amortised cost using the effective interest method, less provision for impairment (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.

(ii) Recognition and derecognition

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

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.

(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 or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see Note 1(h)).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) 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.

(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. Rental income from investment properties is accounted for as described in Note 1(w)*(vi)*.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 20% to 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	1 – 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 financial assets carried at amortised costs and available-for-sale investments

Financial assets carried at amortised costs and available-for-sale investments are reviewed for impairment at the end of each reporting period to determine whether there is objective evidence of impairment.

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

– For 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. 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 bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(i) Impairment of financial assets carried at amortised costs and available-for-sale investments (continued)

When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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 an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets;
- interests in subsidiaries, associates and joint ventures; and
- goodwill.

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 and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

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

- *Recognition of impairment losses*

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Reversals of impairment losses*

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

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

(n) Asset held for sale

An asset (or disposal group) 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 (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together in a single transaction, and liabilities associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the assets or the disposal groups is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the assets or the disposal groups are 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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. The accounting policy for contract revenue is set out in Note 1(w)*(vii)*. 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) 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.

(r) Trade creditors and other payables

Trade creditors and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(v), 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.

(s) Cash and cash equivalents

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits

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

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

(ii) Share-based payments

The fair value of share options granted to employees of the Group is recognised as a staff cost with a corresponding increase in share option reserve within equity. The fair value is measured at the grant date using 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).

(u) 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.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) 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.

(v) 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.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of motor vehicles 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.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue recognition (Continued)

(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(x)) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue recognition (continued)

(x) Dividend income

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

(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.

(x) Supplier rebate

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

(y) Borrowing costs

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

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

(z) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Translation of foreign currencies (continued)

The results of foreign operations 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.

On disposal of foreign operations, the cumulative amount of the exchange differences recognised in equity which relate to that operation outside Hong Kong is reclassified to profit or loss when the profit or loss on disposal is recognised.

(aa) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ab) 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, financial assets at FVTPL and net assets acquired at business combination

The investment properties, financial assets at FVTPL 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), Note 30(a) and Note 31(e)), 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.

2. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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.

(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. REVENUE

The principal activities of the Group are sales of motor vehicles, provision of motor related business and services, sales of food, healthcare and consumer products, as well as provision of logistics services. Other business mainly represents rental income from investment properties.

An analysis of revenue by business segment is as follows:

HK$ million	**2017**	2016
Sales of motor vehicles, yachts, parts, accessories and motor services	**34,068**	32,594
Sales of food, healthcare and consumer products and logistics services income (Note)	**16,406**	13,830
Revenue from other business	**32**	38
Total	**50,506**	46,462

Note:
Comparative figures of the above have been adjusted to conform to current year's segment reporting presentation (see Note 4(a)).

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 Business (Hong Kong & Macao / Mainland China / Other Markets)

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

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

The consumer products business primarily consists of the operations of (i) trading and distribution of food commodities, distribution of fast moving consumer goods, food manufacturing and retail of food products; (ii) distribution of electrical products; (iii) trading and distribution of consumer and healthcare products business conducted by DCH Auriga Holding Limited (formerly known as LF Distribution Holding Limited) and its subsidiaries ("IMSA and DCH Auriga Group") acquired on 30 June 2016; 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, Thailand, Malaysia, Singapore, the Philippines, Indonesia and Brunei.

(iii) Other Businesses

Other businesses include small operating segments namely property business, and other miscellaneous businesses where the revenue and results from these segments are 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 revenue 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 or loss 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 and recharges (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, finance lease receivables, prepaid long term assets and trade debtors.

4. SEGMENT REPORTING (CONTINUED)

(a) Segment results

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

HK$ million	**Motor Business**				**Consumer Products Business (Note *(ii)*)**						
Year ended 31 December 2017	**Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Other Businesses**	**Inter-segment elimination**	**Total**
Revenue from external customers	5,679	26,219	2,170	34,068	8,809	4,710	2,887	16,406	32	–	50,506
Inter-segment revenue	5	–	–	5	1	1	–	2	95	(102)	–
Segment Revenue	5,684	26,219	2,170	34,073	8,810	4,711	2,887	16,408	127	(102)	50,506
Segment result from operations (Note *(i)*)	422	888	204	1,514	309	(198)	54	165	50	–	1,729
Share of profit / (loss) after tax of associates	–	5	–	5	–	10	–	10	(1)	–	14
Share of profit after tax of joint ventures	–	15	–	15	–	–	–	–	6	–	21
Segment profit / (loss) before taxation (Note *(i)*)	422	908	204	1,534	309	(188)	54	175	55	–	1,764
Segment income tax (Note *(i)*)	(93)	(204)	(39)	(336)	(45)	(8)	(17)	(70)	(10)	–	(416)
Segment profit / (loss) after taxation (Note *(i)*)	329	704	165	1,198	264	(196)	37	105	45	–	1,348

HK$ million	Motor Business				Consumer Products Business (Note *(ii)*)						
Year ended 31 December 2016	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Other Businesses	Inter-segment elimination	Total
Revenue from external customers	5,661	24,554	2,379	32,594	7,235	4,793	1,802	13,830	38	–	46,462
Inter-segment revenue	3	1	–	4	–	1	–	1	100	(105)	–
Segment Revenue	5,664	24,555	2,379	32,598	7,235	4,794	1,802	13,831	138	(105)	46,462
Segment result from operations (Note *(i)*)	549	356	152	1,057	356	(89)	15	282	68	–	1,407
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 (Note *(i)*)	549	372	152	1,073	356	(81)	15	290	74	–	1,437
Segment income tax (Note *(i)*)	(91)	(147)	(39)	(277)	(62)	(22)	(6)	(90)	(8)	–	(375)
Segment profit / (loss) after taxation (Note *(i)*)	458	225	113	796	294	(103)	9	200	66	–	1,062

Notes:

(i) Segment results are before corporate expenses and recharges and the corresponding tax impacts.

(ii) As a result of re-alignment of business segments for the purposes of reporting to the Group's senior executive management, segment revenue and results from the business as conducted by IMSA and DCH Auriga Group have been included in "Consumer Products Business". Its results for July to December 2016 were presented as a separate operating segment in the 2016 annual financial statements.

(iii) Comparative figures presented above have been adjusted to conform to current year's presentation.

4. SEGMENT REPORTING (CONTINUED)

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

HK$ million	2017	2016
Segment profit after taxation	**1,348**	1,062
Net gain on		
– remeasurement of investment properties	**7**	3
– remeasurement of financial assets at FVTPL	**16**	–
– remeasurement of an investment property reclassified as asset held for sale	**–**	188
– disposal of properties held for own use	**64**	–
Amortisation of fair value adjustments on property, plant and equipment, lease prepayments and intangible assets arising from business combinations	**(87)**	(82)
Net provision of impairment losses on		
– property, plant and equipment	**(21)**	(6)
– intangible assets	**(20)**	(6)
– goodwill	**–**	(5)
Net fair value loss on foreign currency forward contracts	**(1)**	(2)
Net fair value gain on interest rate swaps and a cross currency swap	**–**	16
Share-based payments	**3**	(6)
Transaction costs incurred for business combination	**–**	(39)
Unallocated corporate expenses	**(433)**	(401)
Reconciliation items before taxation	**(472)**	(340)
Tax impact:		
Additional assessments on certain commission income for prior years	**–**	(38)
Net tax effect on the above reconciliation items	**62**	(52)
Reconciliation items net of taxation	**(410)**	(430)
Profit for the year	**938**	632

4. SEGMENT REPORTING (CONTINUED)

(c) Other segment information

The following table sets out other information by reportable segment. Segment results are arrived at after charging / (crediting):

HK$ million	Motor Business				Consumer Products Business (Note)					
Year ended 31 December 2017	**Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Other Businesses**	**Total**
Segmental depreciation and amortisation	**73**	**267**	**12**	**352**	**42**	**39**	**35**	**116**	**13**	**481**
Segmental interest income	**(1)**	**(34)**	**(1)**	**(36)**	**(5)**	**(3)**	**(2)**	**(10)**	**(1)**	**(47)**
Segmental interest expense	**6**	**13**	**2**	**21**	**10**	**36**	**5**	**51**	**5**	**77**
Segmental write-down of inventories	**26**	**21**	**6**	**53**	**16**	**45**	**6**	**67**	**–**	**120**
Segmental reversal of write-down of inventories	**(8)**	**(9)**	**(1)**	**(18)**	**(15)**	**(27)**	**(14)**	**(56)**	**–**	**(74)**
Segmental net provision / (reversal) of impairment losses on trade debtors and other receivables	**6**	**24**	**3**	**33**	**(6)**	**51**	**(5)**	**40**	**–**	**73**
Segmental net gain on disposal of subsidiaries	**–**	**(2)**	**–**	**(2)**	**–**	**(14)**	**–**	**(14)**	**–**	**(16)**

HK$ million	Motor Business				Consumer Products Business (Note)					
Year ended 31 December 2016	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Other Businesses	Total
Segmental depreciation and amortisation	71	255	30	356	39	58	19	116	13	485
Segmental interest income	(1)	(56)	–	(57)	(2)	(2)	(1)	(5)	–	(62)
Segmental interest expense	3	10	4	17	5	64	4	73	8	98
Segmental write-down of inventories	18	27	6	51	22	75	11	108	–	159
Segmental reversal of write-down of inventories	(9)	(3)	(2)	(14)	(5)	(10)	(8)	(23)	–	(37)
Segmental net provision / (reversal) of impairment losses on trade debtors and other receivables	4	38	–	42	(1)	167	2	168	–	210
Segmental net gain on disposal of subsidiaries	–	–	–	–	–	(244)	–	(244)	(5)	(249)
Segmental net gain on disposal of an associate	–	–	–	–	–	(89)	–	(89)	–	(89)

Note: The segment information from IMSA and DCH Auriga Group has been included in "Consumer Products Business" (see Note 4(a)*(ii)*). Comparative figures have been adjusted to conform to current year's presentation.

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, Taiwan, the Philippines, Indonesia and Brunei. The geographical segment of revenue 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 revenue from external customers and non-current assets (excluding deferred tax assets) by geographical segment is as follows:

	Revenue from external customers		Non-current assets	
HK$ million	**2017**	2016	**2017**	2016
Hong Kong & Macao	**14,512**	12,909	**3,085**	2,885
Mainland China	**30,930**	29,347	**7,041**	4,640
Other Markets	**5,064**	4,206	**816**	1,067
Total	**50,506**	46,462	**10,942**	8,592

5. OTHER NET INCOME

HK$ million	**2017**	2016
Commission income	**539**	407
Handling and service charge income	**205**	179
Advertising and other subsidies from suppliers	**135**	112
Net gain / (loss) on disposal of property, plant and equipment (Note)	**64**	(15)
Government subsidies	**24**	17
Interest income from bank deposits	**10**	10
Forfeited deposit from customers	**7**	6
Other interest income	**4**	1
Net fair value loss on foreign currency forward contracts	**(1)**	(2)
Net loss on disposal of joint ventures	**(2)**	–
Net exchange (loss) / gain	**(6)**	1
Others	**64**	71
Total	**1,043**	787

Note:
During the year ended 31 December 2016, an ammonia emission incident occurred in a logistics centre of the Group located in Shanghai. The Group engaged independent third parties to assess the damages and claims arising from the incident. Based on the assessment, the Group wrote off certain plant and equipment amounted to HK$30 million which was included in "Net loss on disposal of property, plant and equipment" for the year ended 31 December 2016. The Group also incurred incremental storage costs and losses for claims totalling HK$33 million which were included in "Cost of sales" and "Administrative expenses" for the year ended 31 December 2016 respectively.

6. NET GAIN ON DISPOSAL OF SUBSIDIARIES AND AN ASSOCIATE

(a) Net gain on disposal of subsidiaries

Included in the net gain on disposal of subsidiaries during the year ended 31 December 2016 is an amount of HK$244 million which represents the gain on disposal of Guangdong Victory Electrical Appliances Manufacturing Co., Ltd., 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). Remaining consideration receivable of HK$244 million has been received during the year ended 31 December 2017.

During the year ended 31 December 2017, the Group has completed disposals of certain immaterial subsidiaries with net gain on disposal of HK$16 million recorded.

(b) Net gain on disposal of an associate

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.

7. PROFIT BEFORE TAXATION

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

(a) Finance costs

HK$ million	**2017**	2016
Interest on bank advances and other borrowings	**192**	189
Other interest expenses	**1**	–
Total	**193**	189

(b) Staff costs

HK$ million	**2017**	2016
Salaries, wages and other benefits	**3,428**	3,082
Contributions to defined contribution retirement schemes (Note)	**176**	161
Share-based payments (Note 29)	**(3)**	6
Total	**3,601**	3,249

7. PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs (continued)

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 (i) 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; and (ii) 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.

(c) Other items

HK$ million	Note	**2017**	2016
Amortisation			
– lease prepayments	14	**17**	16
– intangible assets	15	**77**	69
Depreciation	13(a)	**487**	496
Write-down of inventories	20(b)	**120**	159
Reversal of write-down of inventories	20(b)	**(74)**	(37)
Net provision / (reversal) of impairment losses on			
– property, plant and equipment	13(a)	**21**	6
– intangible assets	15	**20**	6
– goodwill	16	**–**	5
– amounts due from joint ventures		**(54)**	11
– trade debtors and other receivables		**73**	210
Direct write off of trade debtors and other receivables		**20**	25
Net loss on realised foreign currency forward contracts		**–**	9
Auditors' remuneration			
– audit and audit related services (Note)		**18**	27
– tax services		**1**	2
– other services		**6**	5
Operating lease charges in respect of properties		**944**	939
Rental income from investment properties less direct outgoings of HK$5 million (2016: HK$12 million)		**(9)**	(21)

Note:
The amount for the year ended 31 December 2017 is net of an adjustment for over-provision in prior year of HK$5 million.

8. INCOME TAX

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year. Taxation outside Hong Kong is charged at the appropriate current rate of taxation ruling in the relevant jurisdiction.

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

HK$ million	**2017**	2016
Current tax – Hong Kong Profits Tax		
– Provision for the year	**111**	136
– Under-provision in previous years (Note *(i)*)	**3**	38
	114	174
Current tax – Outside Hong Kong		
– Provision for the year	**355**	168
– Under-provision in previous years	**8**	6
	363	174
Deferred tax		
– Origination and reversal of temporary differences	**(170)**	12
– Utilisation of deferred tax assets on tax losses	**30**	71
	(140)	83
Withholding tax	**17**	34
Total	**354**	465

Notes:

(i) During the year ended 31 December 2016, the Hong Kong Inland Revenue Department had raised additional assessments on certain commission income for prior years. This tax case had 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, an intermediate holding company of the Company, 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 28 (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.

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

HK$ million	**2017**	2016
Profit before taxation	**1,292**	1,097
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**264**	216
Tax effect of non-deductible expenses	**54**	125
Tax effect of non-taxable income	**(37)**	(76)
Tax effect of utilisation of previously unrecognised tax losses	**(91)**	(47)
Tax effect of tax losses not recognised	**132**	129
Under-provision in previous years	**11**	44
Withholding tax	**17**	34
Others	**4**	40
Income tax charge	**354**	465

9. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended 31 December 2016 and 2017 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)*)	2017 Total	2016 Total
Executive directors								
Yip Moon Tong (Note *(ii)*)	–	3,870	–	229	4,099	–	4,099	10,827
Lai Ni Hium (Note *(iii)*)	–	5,060	6,200	18	11,278	–	11,278	5,906
Lee Tak Wah (Note *(iv)*)	–	2,587	2,820	126	5,533	–	5,533	–
Fung Kit Yi, Kitty (Note *(iv)*)	–	3,116	2,600	18	5,734	–	5,734	–
Lau Sei Keung	–	3,184	4,900	306	8,390	–	8,390	8,807
Glenn Robert Sturrock Smith (Note *(v)*)	–	–	–	–	–	–	–	4,921
Wai King Fai, Francis (Note *(vi)*)	–	–	–	–	–	–	–	1,684
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 *(vii)*)	420	–	–	–	420	–	420	317
Woo Chin Wan, Raymond (Note *(viii)*)	420	–	–	–	420	–	420	210
Cheung Kin Piu, Valiant (Note *(ix)*)	–	–	–	–	–	–	–	210
Total	2,100	17,817	16,520	697	37,134	–	37,134	34,142

Notes:

(i) Details of the share option scheme are set out in Note 29.

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

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

(iv) Ms. Fung Kit Yi, Kitty and Mr. Lee Tak Wah were appointed as executive directors of the Company with effect from 1 March 2017.

(v) Mr. Glenn Robert Sturrock Smith, retired as an executive director of the Company with effect from 1 January 2017.

(vi) Mr. Wai King Fai, Francis, retired as an executive director of the Company with effect from 10 May 2016.

9. DIRECTORS' EMOLUMENTS (CONTINUED)

Notes (continued):

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

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

(ix) 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 2016 and 2017, 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	**2017**	2016
Salaries, allowances and other benefits	**3,699**	2,580
Discretionary bonuses	**2,383**	2,716
Contributions to defined contribution retirement schemes	**18**	126
Share-based payments	**–**	261
Total	**6,100**	5,683

(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 2016 and 2017 whose profiles are included in the section "Directors and Senior Management" fell within the following bands:

	Number of individuals	
Emolument band (HK$)	**2017**	2016
4,000,001 – 5,000,000	**–**	1
3,000,001 – 4,000,000	**2**	5
2,000,001 – 3,000,000	**3**	5
1,000,001 – 2,000,000	**3**	1
Total	**8**	12

11. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

HK$ million	**2017**	2016
Interim dividend declared and paid of 5.05 HK cents (2016: 4.75 HK cents) per share	**93**	87
Final dividend proposed after the end of the reporting period of 11.90 HK cents (2016: 3.69 HK cents) per share	**220**	68
Total	**313**	155

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividend payable to equity shareholders of the Company attributable to the previous year, approved and paid during the year:

HK$ million	**2017**	2016
Final dividend in respect of previous financial year, approved and paid during the year of 3.69 HK cents (2016: 6.40 HK cents) per share	**68**	117

12. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the years ended 31 December 2016 and 2017 are based on the profit attributable to shareholders of the Company of HK$802 million (2016: HK$511 million) and the weighted average number of ordinary shares in issue during the year which is calculated as follows:

	Number of ordinary shares	
	2017	2016
Issued ordinary shares at 1 January	**1,832,133,000**	1,832,133,000
Effect of scrip dividend issued (Note 28(a))	**2,817,810**	–
Weighted average number of ordinary shares	**1,834,950,810**	1,832,133,000

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2016 and 2017 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 2017		2,520	114	3,671	6,305	215	6,520
Exchange adjustments		157	3	175	335	10	345
Additions		7	69	635	711	–	711
Business combination	30	327	–	84	411	–	411
Transfer to inventories	13(b)	–	–	(32)	(32)	–	(32)
Transfer to investment properties	13(c)	(6)	–	–	(6)	6	–
Reclassification		56	(109)	53	–	–	–
Amortisation capitalised in construction in progress	14	–	2	–	2	–	2
Disposals and written-off		(84)	(5)	(497)	(586)	(9)	(595)
Disposal of subsidiaries		–	–	(12)	(12)	–	(12)
Net gain on remeasurement		–	–	–	–	7	7
At 31 December 2017		2,977	74	4,077	7,128	229	7,357
Representing:							
Cost		2,977	74	4,077	7,128	–	7,128
Valuation		–	–	–	–	229	229
At 31 December 2017		2,977	74	4,077	7,128	229	7,357
Accumulated depreciation and impairment:							
At 1 January 2017		722	–	2,265	2,987	–	2,987
Exchange adjustments		45	–	99	144	–	144
Business combination	30	62	–	38	100	–	100
Charge for the year		82	–	405	487	–	487
Impairment loss	13(i)	19	–	2	21	–	21
Transfer to inventories	13(b)	–	–	(22)	(22)	–	(22)
Transfer to investment properties	13(c)	(2)	–	–	(2)	–	(2)
Disposals and written-off		(28)	–	(336)	(364)	–	(364)
Disposal of subsidiaries		–	–	(7)	(7)	–	(7)
At 31 December 2017		900	–	2,444	3,344	–	3,344
Net book value:							
At 31 December 2017		2,077	74	1,633	3,784	229	4,013

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
		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		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		(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		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		(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

(b) During the year ended 31 December 2017, certain motor vehicles with carrying amount of HK$10 million (2016: HK$7 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 2017, certain land and buildings held for own use with carrying amount of HK$4 million (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$1 million (2016: 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$184 million at 31 December 2017 (2016: HK$139 million).

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

(f) Property valuation

All investment properties, were revalued at 31 December 2016 and 2017 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

Fair value hierarchy

The fair value measurement of the Group's investment properties 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 held for sale as at 31 December 2016 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 fall into Level 3 and the movement during the year is as follows:

HK$ million	Hong Kong	Mainland China	Japan	Total
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
At 1 January 2017	**45**	**94**	**76**	**215**
Exchange adjustments	**–**	**7**	**3**	**10**
Transfer to Level 3 (Note *(i)*)	**–**	**–**	**6**	**6**
Disposal	**–**	**–**	**(9)**	**(9)**
Unrealised fair value gain (Note *(iii)*)	**1**	**4**	**2**	**7**
At 31 December 2017	**46**	**105**	**78**	**229**

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$1 million (2016: 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 2016 and 2017 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$16.0 – HK$87.5 (2016: HK$15.2 – HK$87.5)
		Capitalisation rate	*(ii)*	3.5% – 4.0% (2016: 3.5% – 4.0%)
Mainland China	Income Capitalisation Approach	Average market rent per sq. m. per month	*(i)*	RMB16.3 – RMB41.2 (2016: RMB15.5 – RMB38.1)
		Capitalisation rate	*(ii)*	7.0% – 9.0% (2016: 7.0% – 9.0%)
	Depreciated Replacement Cost Approach	Average unit price of land per sq. m.	*(i)*	RMB312 – RMB424 (2016: RMB308 – RMB421)
		Average construction cost per sq. m.	*(i)*	RMB137 – RMB424 (2016: RMB156 – RMB439)
Japan	Discounted Cash Flow Approach	Discount rate	*(ii)*	6.0% (2016: 6.0%)
	Direct Comparison Approach	Property-specific adjusting factor	*(i)*	1.2 (2016: 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	**2017**	2016
Investment properties		
In Hong Kong		
– Long term lease	**29**	28
– Medium term lease	**17**	17
Outside Hong Kong		
– Freehold properties	**78**	76
– Medium term lease	**105**	94
At 31 December	**229**	215

HK$ million	**2017**	2016
Land and buildings held for own use		
In Hong Kong		
– Long term lease	**4**	61
– Medium term lease	**275**	231
– Short term lease	**1**	1
Outside Hong Kong		
– Freehold properties	**61**	58
– Long term lease	**5**	5
– Medium term lease	**1,450**	1,210
– Short term lease	**281**	232
At 31 December	**2,077**	1,798

(h) Certain properties and buildings situated in mainland China and Taiwan with an aggregate net book value of HK$736 million at 31 December 2017 (2016: HK$746 million) were built on land owned by the Group in respect of which the Group is in the process of applying for property ownership certificates from the relevant authorities or leased from third parties. 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 2017, impairment losses of HK$20 million (2016: HK$6 million) have been recognised for certain property, plant and equipment under Motor Business with reference to their recoverable amounts.

Apart from the above, impairment losses of HK$1 million (2016: nil) have been recognised for certain property, plant and equipment under Consumer Products Business with reference to 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' revenue. The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

HK$ million	**2017**	2016
Within 1 year	**164**	128
After 1 year but within 5 years	**161**	128
After 5 years	**60**	63
At 31 December	**385**	319

14. LEASE PREPAYMENTS

HK$ million	**2017**	2016
Cost:		
At 1 January	**593**	661
Exchange adjustments	**50**	(48)
Additions	**–**	1
Business combination (Note 30)	**336**	80
Disposal of a subsidiary	**–**	(94)
Transfer to investment properties (Note 13(c))	**–**	(7)
At 31 December	**979**	593
Accumulated amortisation and impairment:		
At 1 January	**94**	93
Exchange adjustments	**8**	(7)
Charge for the year	**17**	16
Amortisation capitalised in construction in progress (Note 13(a))	**2**	1
Business combination (Note 30)	**–**	11
Disposal of a subsidiary	**–**	(19)
Transfer to investment properties (Note 13(c))	**–**	(1)
At 31 December	**121**	94
Net book value:		
At 31 December	**858**	499

14. LEASE PREPAYMENTS (CONTINUED)

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

HK$ million	**2017**	2016
Outside Hong Kong		
– Long term lease	**7**	6
– Medium term lease	**836**	479
– Short term lease	**15**	14
At 31 December	**858**	499

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 2017	**711**	**426**	**339**	**1,476**
Exchange and other adjustments	**59**	**(11)**	**3**	**51**
Business combination (Note 30)	**818**	**–**	**10**	**828**
Disposal of a subsidiary	**–**	**–**	**(57)**	**(57)**
At 31 December 2017	**1,588**	**415**	**295**	**2,298**
Accumulated amortisation and impairment:				
At 1 January 2017	**195**	**23**	**104**	**322**
Exchange adjustments	**13**	**–**	**–**	**13**
Charge for the year (Note *(ii)*)	**22**	**29**	**26**	**77**
Impairment loss	**20**	**–**	**–**	**20**
Disposal of a subsidiary	**–**	**–**	**(14)**	**(14)**
At 31 December 2017	**250**	**52**	**116**	**418**
Net book value:				
At 31 December 2017	**1,338**	**363**	**179**	**1,880**

15. INTANGIBLE ASSETS (CONTINUED)

HK$ million	Car dealerships	Supplier relationship	Others (Note *(i)*)	Total
Cost:				
At 1 January 2016	754	52	324	1,130
Exchange adjustments	(43)	–	(8)	(51)
Business combination	–	374	27	401
Disposal of a subsidiary	–	–	(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	–	–	(4)	(4)
At 31 December 2016	195	23	104	322
Net book value:				
At 31 December 2016	516	403	235	1,154

Notes:

(i) Others mainly comprise customer relationship, trademarks and car licenses for mainland China Motor Business with indefinite useful lives (carrying amount at 31 December 2017: HK$44 million (2016: HK$41 million)). The car licences' recoverable amounts are being measured at fair value less costs of disposal with reference to market quoted price.

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

16. GOODWILL

HK$ million	2017	2016
Cost:		
At 1 January	**2,411**	668
Exchange and other adjustments	**19**	(3)
Disposal of a subsidiary	**–**	(29)
Business combination (Note 30)	**338**	1,775
At 31 December	**2,768**	2,411
Accumulated impairment:		
At 1 January	**8**	32
Disposal of a subsidiary	**–**	(29)
Impairment loss	**–**	5
At 31 December	**8**	8
Carrying amount:		
At 31 December	**2,760**	2,403

Impairment tests of goodwill

The carrying amount of goodwill is allocated to the Group's CGUs identified in the following segments:

HK$ million		2017	2016
Motor Business	– Mainland China	**487**	146
Consumer Products Business	– Hong Kong & Macao	**1,704**	1,699
	– Mainland China	**415**	411
	– Other Markets	**148**	147
Other Business	– Hong Kong & Macao	**6**	–
		2,760	2,403

As a result of reorganisation of IMSA and DCH Auriga Group, the Group has allocated the related goodwill to CGUs in different geographical locations in Consumer Products Business segment. Comparative figures have been adjusted to conform to current year's presentation.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of three to five years. Cash flows beyond the budget period are extrapolated using an estimated growth rate of 2% – 3% (2016: 2% – 3%) which is consistent with average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 12% to 14% (2016: 8% to 10%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

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.	The People's Republic of China (the "PRC")	US$14,300,000	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.

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	2017	2016
Carrying amount in the consolidated financial statements	**214**	175
The Group's effective share of those associates':		
– Profit for the year	**14**	11
– Other comprehensive income / (loss)	**13**	(22)
– Total comprehensive income / (loss)	**27**	(11)

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

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

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	**2017**	2016
Carrying amount in the consolidated financial statements:		
– share of net assets and goodwill	**214**	193
– amounts due from joint ventures (Note)	**133**	171
	347	364
The Group's effective share of those joint ventures':		
– Profit for the year	**21**	19
– Other comprehensive income / (loss)	**12**	(15)
– Total comprehensive income	**33**	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$66 million (2016: HK$34 million) which is interest bearing at 3.2% (2016: 3.0%) per annum as at 31 December 2017.

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$6 million was recognised at 31 December 2017 (2016: HK$60 million). During the year ended 31 December 2017, reversal of provision for impairment losses of HK$54 million has been made due to the settlement as mentioned in Note 18(a)*(ii)* below.

18. INTERESTS IN JOINT VENTURES (CONTINUED)

(a) The Group sets 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 had been several disputes between certain subsidiaries of the Group, the joint venture partner and certain of the Joint Ventures. These disputes include the filing of a court application by a subsidiary of the Group to request settlement of amount due from a Joint Venture and claims made by a Joint Venture for outstanding settlement of rental disputes against certain subsidiaries of the Group.

During the year ended 31 December 2017, the Group and the joint venture partner have reached a settlement on the disputes, whereby:

(i) Both parties agreed to voluntarily withdraw all court applications and claims against each party.

The joint venture relationship between the Group and the joint venture partner will be terminated. In particular, the interest held by the joint venture partner in certain Joint Ventures will be acquired by the Group and the interest held by the Group in certain of the Joint Ventures will be disposed of to the joint venture partner.

At as 31 December 2017, the Group's interests in Joint Ventures that are subject to disposal to the joint venture partner under the settlement have been reclassified as "Asset held for sale" (Note 21).

(ii) All the current accounts with the joint venture partner and the Joint Ventures will be recovered or repaid at agreed repayment terms. As a result of the settlement, the Group reversed the provision previously made against amount due from joint ventures of HK$54 million and such reversal is included in "Administrative expenses".

(iii) Rental disputes will be resolved by either entering into new agreements with the joint venture partner for leasing of the underlying land or transferring the underlying land use rights to the Group. Upon signing of these agreements, the Group had made prepayments in respect of the above amounting to HK$95 million as at 31 December 2017.

19. OTHER NON-CURRENT ASSETS

HK$ million	Note	**2017**	2016
Finance lease receivables	22	**437**	352
Prepaid long term assets (Note *(i)*)		**362**	70
Financial assets at FVTPL (Note *(ii)*)		**61**	–
Trade debtors	22	**7**	39
Held-to-maturity debt securities – unlisted		**3**	3
		870	464

Notes:

(i) The balance represented non-current prepaid rental expenses of HK$199 million (2016: nil) and prepayment of property, plant and equipment of HK$163 million (2016: HK$70 million).

(ii) The balance represented 7,500 convertible notes subscribed by the Group during the year ended 31 December 2017. The convertible notes have a face value of AUD7.5 million (equivalent to approximately HK$45 million) and a maturity date of 19 July 2020. The convertible notes bear two types of interest, (i) cash interest at 5% per annum which was recognised in the Group's consolidated statement of profit or loss; and (ii) capitalised interest at 4% per annum and will be capitalised to form part of the conversion amount.

The Group has the right to convert the convertible notes into ordinary shares of the issuers of the convertible notes ("CN issuer") during the period commencing 3 months immediately prior to the maturity date and ending 2 weeks before the maturity date; or when any equity event occurs which mean additional equity investment raised by the CN issuer of not less than AUD10 million, the convertibles notes will automatically be converted.

The fair value of the convertibles notes at 31 December 2017 is AUD10.1 million (equivalent to approximately HK$61 million) (see Note 31(e)). The Group has recognised the fair value change of HK$16 million to profit or loss, in accordance with the accounting policies as mentioned in Note 1(f)*(i)*.

20. INVENTORIES

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

(i) By nature

HK$ million	**2017**	2016
Finished goods	**6,822**	7,079
Raw materials	**55**	72
Work-in-progress	**14**	10
At 31 December	**6,891**	7,161

(ii) By business segment

HK$ million	**2017**	2016
Motor Business	**4,174**	3,931
Consumer Products Business	**2,717**	3,230
At 31 December	**6,891**	7,161

20. INVENTORIES (CONTINUED)

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

HK$ million	2017	2016
Carrying amount of inventories sold	**42,394**	38,982
Write-down of inventories	**120**	159
Reversal of write-down of inventories	**(74)**	(37)
Total	**42,440**	39,104

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

21. ASSET HELD FOR SALE

As at 31 December 2017, the balance represents certain interests in joint ventures that are in the process of being transferred to the joint venture partner, as referred to Note 18(a)*(i)* for details.

As at 31 December 2016, an investment property situated in Japan with a carrying amount of HK$178 million (see Note 13(a)) was reclassified as asset held for sale following the Group's plan to dispose of the property. The property was revalued with a fair value of HK$366 million by reference to the selling price on the real estate sales and purchase agreement signed with an independent third party. 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. The disposal was completed in January 2017 with no further gain or loss.

22. TRADE DEBTORS AND OTHER RECEIVABLES

HK$ million	Note	2017	2016
Trade debtors and bills receivable		**4,566**	4,714
Less: provision for impairment of trade debtors	22(b)	**(64)**	(89)
		4,502	4,625
Other receivables, deposits and prepayments		**3,164**	3,129
Finance lease receivables	22(d)	**869**	567
Gross amounts due from customers for contract work	22(e)	**6**	7
Amount due from an intermediate holding company	22(f)	**1**	–
Amounts due from fellow subsidiaries	22(f)	**1**	1
Amounts due from associates	22(f)	**6**	5
Amounts due from joint ventures	22(f)	**12**	–
Amounts due from holders of non-controlling interests	22(f)	**16**	55
Derivative financial instruments		**15**	15
		8,592	8,404
Less: Non-current finance lease receivables		**(437)**	(352)
Non-current trade debtors		**(7)**	(39)
At 31 December		**8,148**	8,013

Apart from certain trade debtors and other receivables at 31 December 2017 of HK$138 million (2016: HK$206 million), all the amounts of trade debtors and other receivables are expected to be recovered or recognised as expense within one year.

22. TRADE DEBTORS AND OTHER RECEIVABLES (CONTINUED)

(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	**2017**	2016
Within 3 months	**3,992**	4,121
More than 3 months but within 1 year	**361**	423
Over 1 year	**149**	81
At 31 December	**4,502**	4,625

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

Reportable segments	**Credit terms in general**
Motor Business	Cash on delivery to 90 days
Consumer Products Business	Cash on delivery to 105 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	**2017**	2016
At 1 January	**89**	50
Exchange adjustments	**3**	(2)
Business combination	**–**	24
Net impairment loss recognised	**40**	57
Uncollectible amounts written off	**(68)**	(40)
At 31 December	**64**	89

(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$420 million at 31 December 2017 (2016: HK$430 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	**2017**	2016
Overdue for more than 1 month but within 3 months	**234**	235
Overdue for more than 3 months but within 1 year	**155**	178
Overdue over 1 year	**31**	17
At 31 December	**420**	430

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:

2017

HK$ million	**Present value of the minimum lease payments**	**Total minimum lease payments**
Within 1 year	**432**	**487**
After 1 year but within 5 years	**437**	**468**
Unrealised future income on finance leases	**–**	**(86)**
Net investment in finance leases	**869**	**869**

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

(e) Construction contracts

HK$ million	**2017**	2016
Contract costs incurred plus profits less losses	**123**	135
Progress billings	**(122)**	(137)
At 31 December	**1**	(2)
Representing:		
Gross amount due from customers for contract work	**6**	7
Gross amount due to customers for contract work (Note 25)	**(5)**	(9)
At 31 December	**1**	(2)

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

(f) The amounts due from an intermediate holding company, fellow subsidiaries, associates, joint ventures 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 3.5% (2016: 4.8%) per annum as at 31 December 2017 and an amount due from a holder of non-controlling interests of HK$13 million (2016: HK$8 million) which is interest bearing at 2% (2016: 2%) per annum as at 31 December 2017.

23. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) The analysis of cash and cash equivalents is as follows:

HK$ million	Note	2017	2016
Cash and bank deposits		**1,138**	1,160
Less:			
Pledged deposits	24(d)	**(69)**	(73)
Bank overdrafts	24(b)	**(56)**	(45)
At 31 December		**1,013**	1,042

Included in cash and cash equivalents of the Group, HK$617 million (2016: HK$637 million) are denominated in Renminbi at 31 December 2017. 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 PRC.

(b) Reconciliation of liabilities / (assets) arising from financing activities:

The table below details changes in the Group's liabilities / (assets) from financing activities, including both cash and non-cash changes. Liabilities / (assets) arising from financing activities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

HK$ million	**Bank and other loans** (Note 24)	**Amounts due to / (from) and loan from holders of non-controlling interests** (Notes 22, 25 and 26)	**Derivative financial instrument held to hedge accounting** (Note 31(c))	**Total**
At 1 January 2017	**7,379**	**228**	**(10)**	**7,597**
Proceeds from new bank and other loans	**12,297**	**–**	**–**	**12,297**
Repayment of bank and other loans	**(13,437)**	**–**	**–**	**(13,437)**
Net advances from holders of non-controlling interests	**–**	**56**	**–**	**56**
Interest paid	**(192)**	**–**	**–**	**(192)**
Total changes from financing cashflow	**(1,332)**	**56**	**–**	**(1,276)**
Exchange adjustments	**74**	**(1)**	**–**	**73**
Changes in fair values	**–**	**–**	**(3)**	**(3)**
	74	**(1)**	**(3)**	**70**
Other changes:				
Acquisition of subsidiaries (Note 30)	**575**	**–**	**–**	**575**
Disposal of subsidiaries	**(17)**	**–**	**–**	**(17)**
Interest expenses on borrowings	**192**	**–**	**–**	**192**
Changes in working capital	**–**	**6**	**–**	**6**
Total other changes	**750**	**6**	**–**	**756**
At 31 December 2017	**6,871**	**289**	**(13)**	**7,147**

24. BORROWINGS

HK$ million	Note	2017	2016
Bank loans	23(b), 24(a) and (b)	**6,712**	7,223
Bank overdrafts	24(a) and (b)	**56**	45
Other loans	23(b) and 24(c)	**159**	156
At 31 December		**6,927**	7,424

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

HK$ million	2017	2016
Within 1 year or on demand	**2,705**	2,201
After 1 year but within 2 years	**2,237**	1,317
After 2 years but within 5 years	**1,826**	3,750
	4,063	5,067
At 31 December	**6,768**	7,268

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

HK$ million	Note	2017	2016
Bank overdrafts			
– secured		**2**	–
– unsecured		**54**	45
	23(a)	**56**	45
Bank loans			
– secured		**46**	52
– unsecured		**6,666**	7,171
		6,712	7,223
At 31 December		**6,768**	7,268

(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 2016 and 2017.

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	**2017**	2016
Inventories		**170**	170
Bank deposits	23(a)	**69**	73
Trade debtors and other receivables		**65**	47
Lease prepayments		**41**	39
Property, plant and equipment		**27**	26
At 31 December		**372**	355

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 2016 and 2017, there was no breach of loan agreement terms.

25. TRADE CREDITORS AND OTHER PAYABLES

HK$ million	Note	**2017**	2016
Trade creditors and bills payable	25(a)	**3,705**	3,889
Other payables and accrued charges		**4,248**	3,663
Gross amounts due to customers for contract work	22(e)	**5**	9
Amounts due to associates	25(b)	**16**	17
Amounts due to joint ventures	25(b)	**3**	10
Amounts due to holders of non-controlling interests	25(b)	**232**	242
Provision for product rectification	25(c)	**57**	71
Put option written on non-controlling interests		**172**	–
Derivative financial instruments		**4**	17
At 31 December		**8,442**	7,918

Apart from certain trade creditors and other payables at 31 December 2017 of HK$26 million (2016: 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	**2017**	2016
Current or within 1 month	**3,389**	3,552
More than 1 month but within 3 months	**191**	266
More than 3 months but within 6 months	**53**	51
Over 6 months	**72**	20
At 31 December	**3,705**	3,889

(b) The amounts due to 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 (2016: HK$23 million) which is interest bearing at 2% per annum as at 31 December 2016 and 2017.

(c) Provision for product rectification

The movement of provision for product rectification is as follows:

HK$ million	**2017**	2016
At 1 January	**71**	61
Exchange adjustments	**1**	(1)
Additional provision made	**44**	46
Reversal of provision	**(32)**	(6)
Provision utilised	**(27)**	(29)
At 31 December	**57**	71

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 seven 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. OTHER NON-CURRENT LIABILITIES

HK$ million	Note	**2017**	2016
Forward liabilities	*(i)*	**230**	–
Loans from holders of non-controlling interests		**73**	41
Put options written on non-controlling interests		**35**	176
Long term trade creditors		**–**	34
		338	251

Note:

(i) Being forward liabilities in relation to the acquisition of Cixi Business (Note 30).

27. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities recognised

The components of deferred tax liabilities / (assets) 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 2016	47	121	59	(140)	15	43	145
Exchange adjustments	–	(6)	–	6	–	(3)	(3)
Business combination	27	86	–	–	–	–	113
Disposal of a subsidiary	–	(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
At 1 January 2017	**76**	**169**	**129**	**(63)**	**27**	**(18)**	**320**
Exchange adjustments	**3**	**6**	**5**	**(2)**	**–**	**(2)**	**10**
Business combination (Note 30)	**–**	**272**	**–**	**–**	**–**	**–**	**272**
(Credited) / charged to the consolidated statement of profit or loss (Note 8(a))	**(17)**	**(13)**	**(105)**	**30**	**(9)**	**(26)**	**(140)**
Charged to other comprehensive income	**–**	**–**	**1**	**–**	**–**	**2**	**3**
At 31 December 2017	**62**	**434**	**30**	**(35)**	**18**	**(44)**	**465**

Represented by:

HK$ million	**2017**	2016
Deferred tax assets	**(84)**	(102)
Deferred tax liabilities	**549**	422
	465	320

27. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Deferred tax assets not recognised

At 31 December 2017, the Group had not recognised deferred tax assets in respect of the cumulative tax losses of HK$3,248 million (2016: HK$2,805 million) and temporary differences of HK$94 million (2016: HK$61 million) as utilisation of them may not be probable. Tax losses in certain tax jurisdictions of HK$2,476 million (2016: HK$2,110 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 2017, there were temporary differences of HK$4,560 million (2016: HK$3,945 million) related to the undistributed profits of subsidiaries. Deferred tax liabilities of HK$249 million (2016: HK$209 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.

28. CAPITAL AND RESERVES

(a) Share capital

	2017		2016	
	Number of shares (in million)	**HK$ million**	Number of shares (in million)	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**1,832**	**1,477**	1,832	1,477
Shares issued in respect of scrip dividends (Note)	**15**	**58**	–	–
At 31 December	**1,847**	**1,535**	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.

Note:
On 24 October 2017, the Company issued and allotted 14,905,804 shares at an issue price of HK$3.862 per share in respect of the interim dividend for the six months ended 30 June 2017 under the scrip dividend scheme. The 14,905,804 shares so issued ranked pari passu in all respects with the then existing issued shares except for the entitlement to the said interim dividend.

As a result of and in accordance with Section 37 of Schedule 11 to the Hong Kong Companies Ordinance, during the year ended 31 December 2017, the Company's share capital increased by approximately HK$58 million.

28. CAPITAL AND RESERVES (CONTINUED)

(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.

(iii) During the year ended 31 December 2017, the general reserve was credited by HK$3 million (31 December 2016: debited HK$18 million) in respect of the fair value adjustment on put option written on non-controlling interests (Note 31(e)*(i)*). 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)*).

(iv) Included in the amount transferred to retained profit during the year ended 31 December 2017, HK$64 million was in respect of dividend payment from a subsidiary in Japan.

(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.

28. CAPITAL AND RESERVES (CONTINUED)

(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(z)).

(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)*.

(j) Distributable reserves

The distributable reserves of the Company at 31 December 2017 were HK$4,948 million (2016: HK$4,040 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.

28. CAPITAL AND RESERVES (CONTINUED)

(k) Capital management (continued)

The net gearing ratios at 31 December 2016 and 2017 are as follows:

HK$ million	Note	2017	2016
Total borrowings	24	**6,927**	7,424
Less: cash and bank deposits	23	**(1,138)**	(1,160)
Net debt		**5,789**	6,264
Shareholders' funds		**10,145**	8,732
Total capital		**15,934**	14,996
Net gearing ratio		**36.3%**	41.8%

29. 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.

Date of grant	Note	**Number of share options granted**	**Exercise price per share** HK$	**Number of share options outstanding at 31 December** 2017	2016
8 June 2012	*(i)*	24,450,000	7.400	–	21,100,000
30 April 2014	*(ii)*	28,200,000	4.930	**22,950,000**	24,500,000

Notes:

(i) 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. All outstanding share options were expired and lapsed on 7 June 2017.

(ii) 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.

29. EQUITY COMPENSATION BENEFITS (CONTINUED)

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

	2017		2016	
	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	6.073	45,600	6.070	48,100
Lapsed during the year	7.231	(22,650)	6.017	(2,500)
Outstanding at 31 December	4.930	22,950	6.073	45,600
Exercisable at 31 December	4.930	22,950	6.395	35,575

The share options outstanding at 31 December 2017 are with a weighted average remaining life of 1.3 years (2016: 1.5 years).

30. BUSINESS COMBINATIONS

The acquisitions completed during the year ended 31 December 2017 had the following effect on the Group's assets and liabilities on their respective dates of acquisition:

HK$ million	Cixi Business (Note 30(a))	Others (Note 30(b))	Total
Property, plant and equipment (Note 13(a))	311	–	311
Lease prepayments (Note 14)	336	–	336
Intangible assets (Note 15)	818	10	828
Inventories	97	–	97
Trade debtors and other receivables	561	8	569
Cash and bank deposits	98	9	107
Borrowings (Note 23(b))	(575)	–	(575)
Trade creditors and other payables	(353)	(1)	(354)
Current tax payable	–	(1)	(1)
Deferred tax liabilities (Note 27(a))	(270)	(2)	(272)
Fair value of net assets acquired	**1,023**	**23**	**1,046**
Goodwill (Note 16)	332	6	338
Total consideration	**1,355**	**29**	**1,384**
Less: consideration payable	(293)	(5)	(298)
Less: put options written on non-controlling interests	(29)	(5)	(34)
Less: forward liabilities on acquisition of non-controlling interests	(225)	–	(225)
Less: cash and cash equivalents acquired	(98)	(9)	(107)
Net cash outflow	**710**	**10**	**720**

30. BUSINESS COMBINATIONS (CONTINUED)

(a) On 21 July 2017, the Group entered into sale and purchase agreements (the "SPAs") to acquire 80% equity interest in two Mercedes-Benz ("MB") dealerships in operation, 80% equity interest in one Audi dealership in operation and 100% equity interest in three new MB dealerships (collectively known as "Cixi Business") at a total cash consideration of RMB936 million (equivalent to approximately HK$1,101 million) subject to adjustments as stipulated in the SPAs with reference to the net profit after taxation amount as shown in the audited consolidated financial statements of Zhejiang Ciji Zhixing Motor Vehicle Limited for the period from 1 July 2017 to 31 December 2017.

Under the SPAs, the Group has recognised the forward liabilities and has written a put option on acquiring the remaining non-controlling interests.

The acquisition was completed on 31 August 2017.

If the acquisition of Cixi Business had occurred on 1 January 2017, the Group's revenue and profit after tax for the year would have been approximately HK$51,646 million and HK$920 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 2017, 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.

(b) The Group has completed an acquisition of a subsidiary during the year. Since it is relatively immaterial to both the Group's financial position and results of operation, details of this acquisition are not disclosed.

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. The Group's exposure to these risk and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to 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.

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.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

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

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

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

The table below analyses the Group's 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):

2017

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	(2,934)	(2,320)	(1,925)	–	(7,179)
Trade creditors and other payables	(6,691)	(21)	(5)	–	(6,717)
Other non-current liabilities	–	(274)	(59)	(5)	(338)
	(9,625)	(2,615)	(1,989)	(5)	(14,234)
Derivatives settled gross:					
Foreign currency forward contracts					
– outflow	(606)	–	–	–	(606)
– inflow	604	–	–	–	604
	(2)	–	–	–	(2)
Financial guarantees issued:					
Maximum amount guaranteed (Note 33(a))	34	–	–	–	34

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

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	–	(210)	(42)	–	(252)
	(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)

(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 2017, the Group had outstanding interest rate swaps with a notional contract amount of HK$1,152 million (31 December 2016: HK$1,588 million) to reduce the impact of interest rate fluctuation on the unsecured bank borrowings. The swaps will mature within 2018 to 2019 (31 December 2016: within 2017 to 2019) and have effective interest rates ranging from 1.91% to 2.93% per annum (31 December 2016: 1.91% to 3.33% per annum).

At 31 December 2017, the Group had a HKD / USD cross currency swap with a notional contract amount of US$80 million to hedge the interest rate and foreign currency exposures of an unsecured bank borrowing which is denominated in US Dollars. The cross currency swap will mature in 2019 matching with the maturity and the currency of the underlying bank borrowing.

At 31 December 2017, the Group recognised the fair value of outstanding interest rate swaps of HK$9 million assets (31 December 2016: HK$10 million assets) and cross currency swap of HK$4 million assets (31 December 2016: nil) as derivative financial instruments.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (Continued)

Sensitivity analysis

At 31 December 2017, 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$42 million (2016: HK$52 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 2016.

(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 hedges. All of the foreign currency forward contracts have maturities of less than one year after the end of the reporting period. At 31 December 2017, the Group had foreign currency forward contracts hedging forecast transactions with a net fair value of HK$2 million liabilities (2016: HK$12 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, and cross currency swap (Note 31(c)) is being entered into by the Group to keep the foreign currency exposure to an acceptance level. 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 2017 was HK$83 million (2016: HK$213 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.

2017

in million	United States dollars	Renminbi	Euros	Japanese Yen	Pound Sterling	Australian dollars	Hong Kong dollars
Other non-current asset	–	–	–	–	–	10	–
Trade debtors and other receivables	3	13	–	19	–	–	10
Cash and bank deposits	2	2	–	70	–	–	38
Borrowings	(235)	(197)	(4)	–	–	–	–
Trade creditors and other payables	(24)	–	(3)	(435)	(7)	–	(168)
Net exposure arising from recognised assets and liabilities	(254)	(182)	(7)	(346)	(7)	10	(120)
Highly probable forecast purchases	(28)	–	(8)	(6,928)	(1)	–	–
Highly probable forecast sales	1	–	1	–	–	–	–
Foreign currency forward contracts	19	–	5	2,399	1	–	–
Net exposure arising from forecast transactions	(8)	–	(2)	(4,529)	–	–	–
Overall net exposure	(262)	(182)	(9)	(4,875)	(7)	10	(120)

2016

in million	United States dollars	Renminbi	Euros	Japanese Yen	Pound Sterling	Australian dollars	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)

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

Sensitivity analysis

The following table indicates the (negative) / positive 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	**2017**	2016
Renminbi	**(11)**	6
Euros	**(3)**	(3)
Japanese Yen	**(14)**	(7)
Pound Sterling	**(2)**	(1)
Australian dollar	**3**	–

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 2016.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(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 no significant input is based on observable market data.

2017 HK$ million	**Level 2**	**Level 3**
Assets		
Financial assets at FVTPL	**–**	**61**
Derivative financial instruments	**15**	**–**
Liabilities		
Put options written on non-controlling interests	**–**	**(207)**
Derivative financial instruments	**(4)**	**–**
Forward liabilities	**–**	**(230)**

2016 HK$ million	Level 2	Level 3
Asset		
Derivative financial instruments	15	–
Liabilities		
Put option written on non-controlling interests	–	(176)
Derivative financial instruments	(17)	–

During the years ended 31 December 2017 and 2016, there was no transfers between levels. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

31. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value (continued)

(i) Financial instrument carried at fair value (continued)

Fair value hierarchy (continued)

The movements during the period in the balances of these Level 3 fair value measurements of the fair value hierarchy are as follows:

For the year ended 31 December 2017

HK$ million	**Financial assets at FVTPL**	**Put options written on non-controlling interests**	**Forward liabilities**
At 1 January 2017	**–**	**(176)**	**–**
Subscription of convertible notes	**47**	**–**	**–**
Business combination	**–**	**(34)**	**(225)**
Exchange adjustments	**(2)**	**–**	**(4)**
Fair value adjustment credited to reserves	**–**	**3**	**–**
Fair value adjustment credited / (charged) to profit or loss	**16**	**–**	**(1)**
At 31 December 2017	**61**	**(207)**	**(230)**

For the year ended 31 December 2016

HK$ million	Put option written on non-controlling interests
At 1 January 2016	(158)
Fair value adjustment charged to reserves	(18)
At 31 December 2016	(176)

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, cross currency swap, put option written on non-controlling interest and forward liabilities. All financial instruments are carried at amounts not materially different from their fair values at 31 December 2016 and 2017.

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 and cross currency swap 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 values of put options written on non-controlling interests and forward liabilities are estimated amount of the exercise price which are calculated pursuant to the terms of the share purchase agreement for acquisition of Gilman Group Limited and Leader Synergy Limited (collectively known as "Gilman Group") and dealerships under Cixi Business (see Note 30). The fair value measurement requires estimation of post-acquisition profits and judgement on time value of money.

For Gilman Group, the fair value measurement on put option was referenced to the amount of adjusted profit for the year ended 31 December 2015 and 2016 as defined in the share purchase agreement.

For dealerships under Cixi Business, the estimated sales growth rates are the significant unobservable input used in fair value measurement. The estimated sales growth rates were 0.7% to 7.2% per annum. The fair value measurement is positively correlated to the sales growth rates.

The fair value of financial assets at FVTPL is determined using the income approach for the non-derivative component and binomial option pricing model for the embedded derivative component. The significant unobservable input used in the fair value measurement is the discount rate of 6.6% at 31 December 2017. The fair value measurement is negatively correlated to the discount rate.

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	**2017**	2016
Contracted for		
– Capital expenditures	**192**	267
– Investment in an associate	**268**	–
At 31 December	**460**	267
Authorised but not contracted for		
– Capital expenditures	**214**	178
At 31 December	**214**	178

(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	**2017**	2016
Within 1 year	**592**	754
After 1 year but within 5 years	**1,084**	1,082
After 5 years	**955**	1,082
At 31 December	**2,631**	2,918

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:

	2017		2016	
HK$ million	**Granted**	**Utilised**	Granted	Utilised
At 31 December	**59**	**34**	75	33

(b) At the end of the reporting period, a subsidiary has issued a guarantee of EUR1.2 million (2016: 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	**2017**	2016
Purchases from associates	**351**	264
Rental expenses to fellow subsidiaries	**214**	215

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.

(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 Corporation which are payable as follows:

HK$ million	**2017**	2016
Within 1 year	**88**	209
After 1 year but within 5 years	**–**	86
At 31 December	**88**	295

(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 2017, the directors considered the ultimate holding company of the Group to be CITIC Group Corporation, a wholly state-owned company established in the PRC. 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 2017

HK$ million	Note	**2017**	2016
Non-current asset			
Interests in subsidiaries		**10,550**	10,607
		10,550	10,607
Current assets			
Other receivables, deposits and prepayments		**2**	–
Amounts due from subsidiaries		**2,168**	1,452
Derivative financial instruments		**8**	10
Cash and bank deposits		**2**	3
		2,180	1,465
Current liabilities			
Borrowings		**1,656**	1,017
Other payables and accrued charges		**8**	13
Amounts due to subsidiaries		**471**	356
		2,135	1,386
Net current assets		**45**	79
Total assets less current liabilities		**10,595**	10,686
Non-current liability			
Borrowings		**4,063**	5,067
		4,063	5,067
Net assets		**6,532**	5,619
Capital and reserves	36(a)		
Share capital		**1,535**	1,477
Other reserves		**4,997**	4,142
Total equity		**6,532**	5,619

Approved and authorised for issue by the board of directors on 8 March 2018.

Zhang Jijing
Director

Lai Ni Hium
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	General reserve	Share option reserve	Retained profits	Total
		(28(a))	(28(b))	(28(f))		
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	28(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
At 1 January 2017		**1,477**	**22**	**80**	**4,040**	**5,619**
Total comprehensive income for the year		**–**	**–**	**–**	**1,019**	**1,019**
Shares issued in respect of scrip dividend	28(a)	**58**	**–**	**–**	**–**	**58**
Share-based payments	7(b)	**–**	**–**	**(3)**	**–**	**(3)**
Lapse of share options		**–**	**–**	**(50)**	**50**	**–**
Dividends	11	**–**	**–**	**–**	**(161)**	**(161)**
At 31 December 2017		**1,535**	**22**	**27**	**4,948**	**6,532**

37. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 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
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
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	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*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 15, *Revenue from contracts with customers* (continued)

(a) Timing of revenue recognition

Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have been passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's contracts that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced.

The Group has assessed that the new revenue standard is not likely to have significant impact on the timing of revenue recognition for Consumer Products Business and Other Business segment. However, timing of revenue recognition for Motor Business segment is expected to be affected under the transfer-of-control approach in the new standard. This may result in revenue of certain sales of motor vehicles and motor yachts being recognised later than at present. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 15, *Revenue from contracts with customers* (continued)

(b) Principal versus agent considerations

Currently, the principal versus agent determination is based on risk-and-reward approach, whereas revenue is recognised on a gross basis as a principal in the transaction when the entity has exposure to the significant risks and rewards associated with the sales of goods or the rendering of services. If an entity is determined as an agent in a transaction, revenue of the transaction is recognised on a net basis.

Under HKFRS 15, revenue recognition is subject to transfer of control as mentioned above. An entity is considered as a principal when the entity has control over specified goods or services in advance of transferring them to the customers.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that the principal versus agent determination for some of the Group's contracts may change. The Group has assessed that the new revenue standard is not likely to have significant impact on the principal versus agent determination for Motor Business and Other Business segment. However, principal versus agent determination for Consumer Products Business segment is expected to be affected. Revenue recognition of certain transactions may change from gross basis to net basis. Further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, 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.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 16, *Leases*

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, 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 a 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 a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 32(b), at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$2,631 million, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt HKFRS 16 in its 2018 consolidated financial statements.

39. 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 manufacturing 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 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

39. 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	
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 manufacturing and trading
DCH Auriga (Hong Kong) Limited		Hong Kong	HK$146,000,000	–	100	Distribution of consumer and pharmaceutical products
DCH Auriga (Singapore) Pte. Ltd.		Singapore	Ordinary SGD300,000 Preference SGD68,000	–	100	Distribution of healthcare products
DCH Auriga (Thailand) Limited		Thailand	Ordinary THB16,000,000 Preference THB5,500,000, 25% paid up	–	100	Distribution of customer and healthcare products
DCH Auriga 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 manufacturing 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
Sims Trading Company Limited		Hong Kong	HK$13,098,135	–	100	Wholesaling and distribution of fast moving consumer goods
Taipei Triangle Motors Limited		Taiwan	NTD200,000,000	–	100	Motor vehicle distributor

39. 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	
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
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
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

39. 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	
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
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

39. 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
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

39. 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	
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
大昌行融資租賃(上海)有限公司 (Dah Chong Hong Finance Lease (Shanghai) Company Limited)	*(i),(vi)*	PRC	RMB170,000,000	–	100	Motor leasing & finance leasing
大昌行食品(上海)有限公司 DCH Food (Shanghai) Co., Ltd.	*(i), (vi)*	PRC	RMB1,000,000	–	100	CFRM Project
利豐醫葯商貿(上海)有限公司 (Shanghai LF Asia Healthcare Co., Ltd.)	*(i),(vi)*	PRC	RMB6,000,000	–	100	Distribution of customer and healthcare products
深圳市興業汽車有限公司 (Shenzhen Xingye Motors Limited)	*(vi)*	PRC	RMB20,000,000	–	100	Motor vehicle 4S dealership
浙江慈吉之星汽車有限公司 (Zhejiang Ciji Zhixing Motor Vehicle Limited)	*(vi)*	PRC	RMB250,000,000	–	80	Motor vehicle 4S dealership

39. 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 2017

MAJOR PROPERTIES HELD FOR INVESTMENT

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
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 2017

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, 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
8. Dah Chong No.2 Building, 18-2, Roppongi, 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	1,711	Commercial/ office
9. Land No.346-22, Azateradani, Hino-Cho, Nishiwaki-shi, Hyogo Prefecture, Japan	Freehold	100	6,300 (land)	Vacant site
10. Land No.689, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	509 (land)	Vacant site
11. Land No.692, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	694 (land)	Vacant site

As at 31 December 2017

MAJOR PROPERTIES HELD FOR OWNER-OCCUPATION

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
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.	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

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2017

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
5.	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
6.	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
7.	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
8.	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

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2017

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
9. 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
10. Lot T7-6, No.28, Yinzhou Avenue, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	8,378	Warehouse
11. 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
12. 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
13. 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

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2017

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
14. 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
15. 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
16. 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
17. No.258 Nangang Gong Road, Huinan Town, Pudong New District, Shanghai, The People's Republic of China	2048	100	9,696	Office
18. 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
19. 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

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2017

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
20. (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
21. (Hu Xi Xian 4#-1 Di Kuai), Heng He Zhen Shang Jian Shancun, Ci Xi City, Ningbo, Zhejiang Province, The People's Republic of China	2048	80	3,270 parking area	4S shop
22. (Hu Xi Xian 4#-2 Di Kuai), Heng He Zhen Shang Jian Shancun, Ci Xi City, Ningbo, Zhejiang Province, The People's Republic of China,	2048	80	8,819	4S shop
23. Gu Lu Tou Cun, Li Zhou Jiedao, Yuyao Shi, Ningbo, Zhejiang Province, The People's Republic of China	2055	100	16,093 (land)	Under construction
24. No.2002, Xing Haibei Road, Mo Lin Jiedao, Ninghai Xian, Ningbo, Zhejiang Province, The People's Republic of China	2052	80	22,195	4S shop
25. 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

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2017

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
26. Land No.712-2, Zi Wu Road, Qu Jing City, Yunnan Province, The People's Republic of China	2047	100	3,900	4S shop
27. 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
28. 9 and 11 She, Lijiatuo, Chi Lung Chuen, Banan District, Chongqing, The People's Republic of China	2047	100	16,904	4S shop
29. Long Huang Qiao 320 State Road, Shuangqing District, Shaoyang, Hunan Province, The People's Republic of China	2051	100	7,762	4S shop
30. 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

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2017

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
31. 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
32. Whole Single Storey Block, No.357 Ji Zhan Road, Shanghai, The People's Republic of China	2056	100	22,109	Warehouse
33. Nos.568-36, Erkan Road, Waipu District, Taichung City 43858, Taiwan	Freehold	100	3,494	Factory and office
34. Portion of Dah Chong No.2 Building, 18-2, Roppongi, 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	707	Office
35. 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
36. 259 Pandan Loop, Singapore 128435, Lot No.4009A, (JTC Pte Lot A14379) Mukim 5	2042	100	1,138	Cold storage
37. Lots 77, 78 & 79, SEDCO Light Industrial Estate, Mile 5½, Off Jalan Tuaran, 88993 Kota Kinabalu, Sabah, Malaysia	2034	60	6,946	Office and warehouse

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2017

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
38. Lots B1-B9, B11 & B12, Karamunting, Jalan Batu Sapi WDT4, Sandakan, Sabah, Malaysia	2881	60	3,114	Office and warehouse
39. Lots C10 & C11, SEDCO Light Industrial Estate, Mile 2½, Jalan Apas, Tawau, Sabah, Malaysia	2042	60	2,657	Office and warehouse
40. Premises Nos. C1 & C2, MPL Saguking Warehouse, Wilayah Persekutuan Labuan, Malaysia	2081	60	558	Office and warehouse
41. Lots 1629 & 2678, Section 64 KTLD, Jalan Kwong Lee Bank, 93450 Kuching, Sarawak, Malaysia	2073	67	7,157	Office and logistics centre
42. Lot 1894, Block 4, Miri Concession Land District, Piasau Industrial Estate, Miri, Sarawak, Malaysia	2043	67	2,808	Office and logistics centre
43. Lot 722, Block 31, Bintulu Service Industrial Estate, Bintulu Sibiya Road 9, Bintulu, Sarawak, Malaysia	2043	67	2,072	Office and logistics centre

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 revenue	Segment revenue from external customers plus inter-segment revenue

RATIOS

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

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

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

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

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

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

CORPORATE INFORMATION

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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 2018 to 23 May 2018

For ascertaining shareholders' entitlement to the
Final Dividend: 29 May 2018 to 31 May 2018

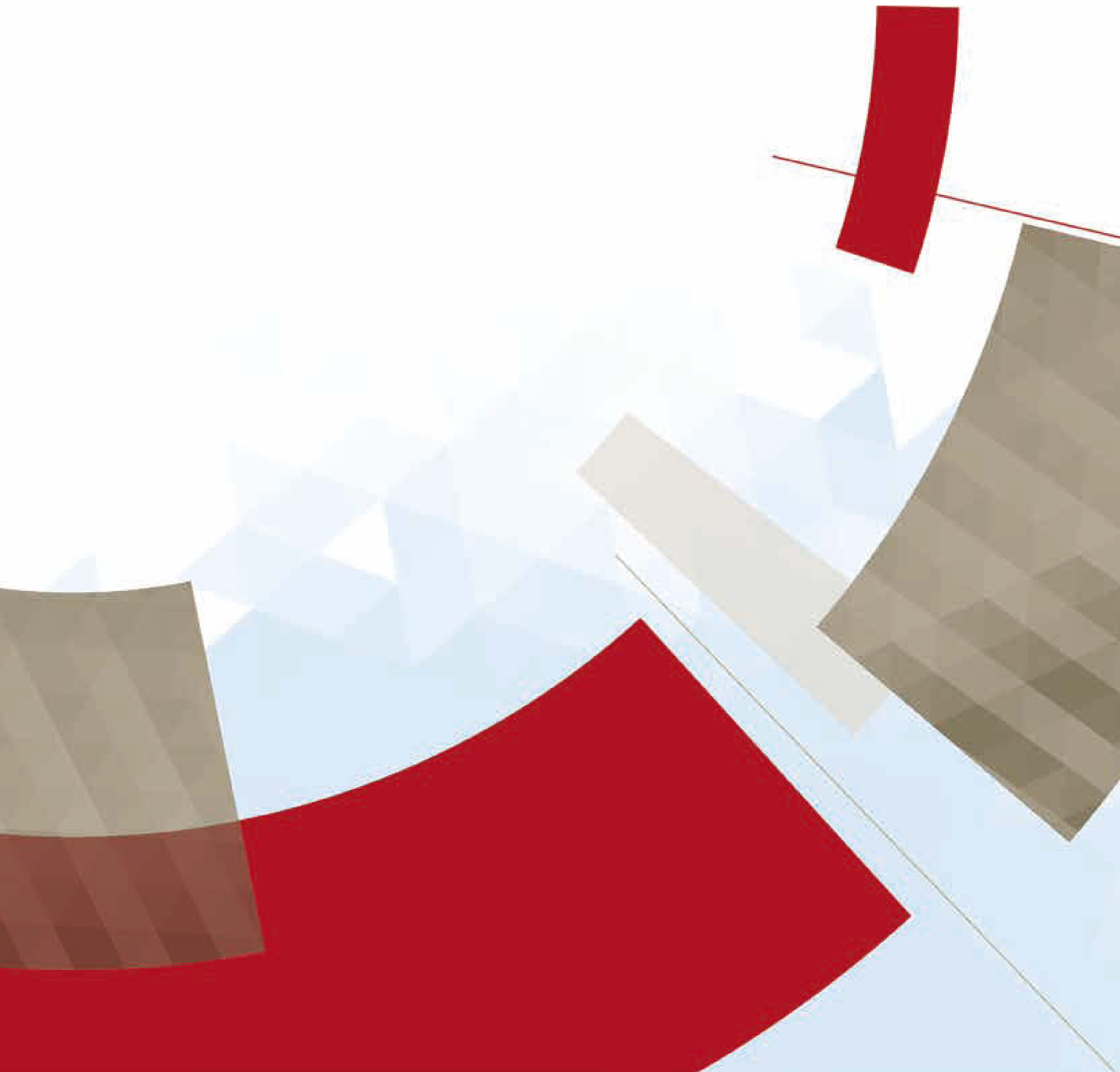
Annual General Meeting: 23 May 2018
10:30 a.m.
Salon 1-4, Level 3
JW Marriott Hotel Hong Kong
Pacific Place, 88 Queensway
Hong Kong

Final Dividend payable: 18 July 2018

Annual Report 2017
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
DAH CHONG HONG HOLDINGS LIMITED

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