



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

Stock Code: 01828



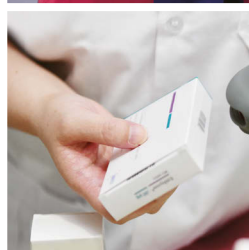
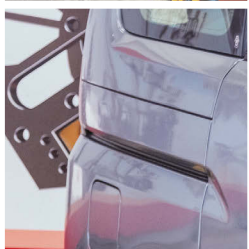
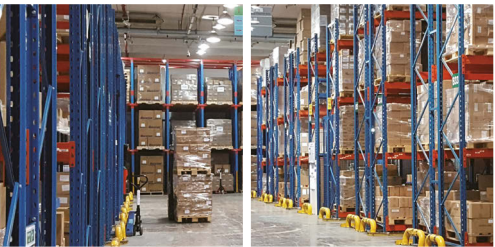
INTERIM REPORT 2018



ABOUT DCH

Dah Chong Hong Holdings (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 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 electrical 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) and employs over 17,000 staff across Asia Pacific. For more details, please visit www.dch.com.hk.



100+
motor
showrooms
and 4S shops

20+
motor
brands

1 mil+
vehicles
serviced
annually

100,000+
new vehicles
sold annually



CONTENTS

Financial Highlights	2	Consolidated Statement of Changes in Equity	32
Business Review	3	Condensed Consolidated Cash Flow Statement	34
Financial Review	13	Notes to the Unaudited Interim Financial Report	35
Risk Management	22	Review Report	63
Talent Management and Development	27	Statutory Disclosure	64
Consolidated Statement of Profit or Loss	28	Definition of Terms	71
Consolidated Statement of Comprehensive Income	29	Corporate Information	72
Consolidated Statement of Financial Position	30		



1,000+
consumer
brands
distributed

75+
food and
electronic
shops

40+
distribution
centres

75,000+
points of
sales served



FINANCIAL HIGHLIGHTS

HK\$ million	Six months ended 30 June	
	2018	2017
Revenue ^{Note}	24,474	23,352
Profit from operations	618	502
Profit attributable to shareholders	275	232
Segment profit/(loss) after taxation ^{Note}		
Motor Business	604	387
Consumer Products Business	(44)	111
Other Businesses	20	23

HK\$ million	30 June	31 December
	2018	2017
Total debt	7,073	6,927
Cash and bank deposits	1,083	1,138
Net debt	5,990	5,789
Shareholders' funds	10,076	10,145
Total capital	16,066	15,934
Total capital employed	17,149	17,072
Net gearing ratio	37.3%	36.3%

HK cents	Six months ended 30 June	
	2018	2017
Earnings per share	14.89	12.66
Interim dividend per share	5.05	5.05

Note: The handling and service charge income and commission income generated from businesses of hire purchase and insurance agency have been classified under "Revenue". Segment profit/(loss) after taxation are before corporate expenses and recharges and the corresponding tax impacts. Comparative figures of revenue and segment profits/(loss) after taxation have been adjusted to conform to current period's presentation.

BUSINESS REVIEW

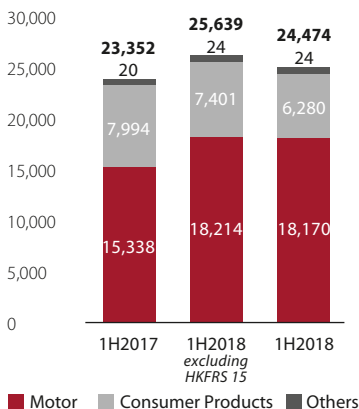
In the first half of 2018, Dah Chong Hong Holdings Limited (“DCH” or the “Group”) recorded an increase of 18.5% in profit attributable to shareholders totaling HK\$275 million (first half 2017: HK\$232 million) and a 4.8% increase in revenue to HK\$24,474 million (first half 2017: HK\$23,352 million) as operational enhancement measures continued to deliver growth and profitability improvement in core segments.

Effective 1 January 2018, DCH adopted Hong Kong Financial Reporting Standard (“HKFRS”) 15, *Revenue from contracts with customers*, which affects the way revenue is recorded for agency and distribution businesses. As a result, recorded revenue for the first half of 2018 decreased, particularly in the consumer products segment. Excluding the impact of HKFRS 15, DCH revenue increased by 9.8% on a like-for-like basis.

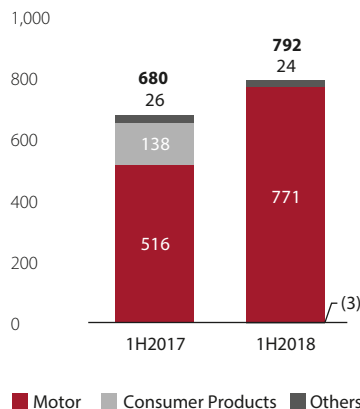
The motor business recorded 18.5% revenue growth to HK\$18,170 million (first half 2017: HK\$15,338 million) while operating profit¹ increased by 49.4% to HK\$771 million (first half 2017: HK\$516 million) as a result of increased passenger vehicle sales from a wide range of business and portfolio enhancement measures and favourable market factors, particularly in mainland China.

Revenue of the consumer products segment decreased by 7.4% on a like-for-like basis as a result of portfolio and market optimisation and by 21.4% to HK\$6,280 million (first half 2017: HK\$7,994 million) after the application of HKFRS 15. Operating profit dropped and recorded a loss of HK\$3 million (first half 2017: HK\$138 million profit) due to restructuring in mainland China and Southeast Asia, which offset profitability improvement in Hong Kong and Macao driven by synergy and portfolio upgrades.

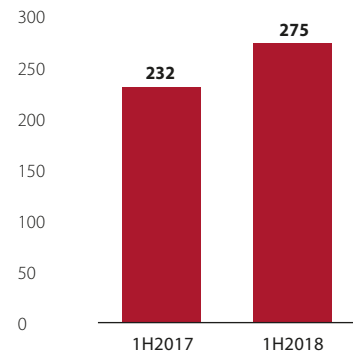
Revenue by Segment
(HK\$ million)



Operating Profit/(Loss) by Segment
(HK\$ million)



Profit Attributable to Shareholders
(HK\$ million)



At the Group level, DCH continues to strengthen operations by consolidating business functions, upgrading systems and adopting a performance culture as part of a comprehensive programme to enhance our efficiency and agility in the increasingly dynamic marketplace. We have begun to implement growth strategies, particularly in mainland China motor, with plans to open more dealerships in the premium and middle-market segments. Despite challenges in mainland China, the consumer products segment remains a high-potential growth area for DCH and we are positioning the business to benefit from growth in the Greater Bay Area, “One Belt, One Road” countries and increasing consumer purchasing power across the region.

¹ Operating profit/(loss) is equal to segment result from operations, as referred to in Note 3(a) to the unaudited interim financial report and excludes taxation and non-controlling interests.

BUSINESS REVIEW (CONTINUED)

While we anticipate increased tariffs on US imports and the reduction of tariffs on imported vehicles will have minimal direct impact on DCH sale volumes, market uncertainty may affect consumer sentiment across categories and changes in tariff structures could potentially impact the longer-term production, pricing and product range strategies of our partners.

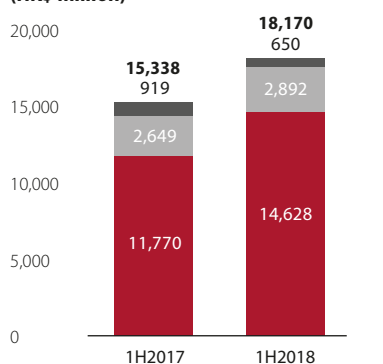
Therefore, our business outlook remains prudent despite the success of the business enhancement programme, and we will continue to closely monitor the direct and indirect impacts of trade policies as we sharpen our capabilities and fuel growth opportunities across our business segments.

MOTOR BUSINESS

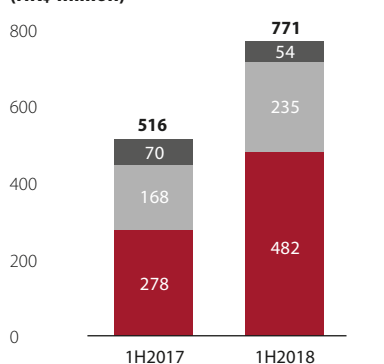
As a dealer and distributor of motor vehicles, DCH represents more than 20 renowned automotive brands and has a presence in mainland China, Hong Kong, Macao, Singapore, Taiwan and Myanmar. Leveraging industry expertise built over more than 50 years, our vehicle distribution business is augmented by a wide portfolio of motor related businesses including independent service outlets, vehicle parts trading, used car sales, motor leasing, auto finance and insurance agency, engineering projects, aviation support operations and the sales of luxury yachts.

Following a series of successful business enhancement measures, revenue from the motor business increased by 18.5% to HK\$18,170 million (first half 2017: HK\$15,338 million) and operating profit increased by 49.4% to HK\$771 million (first half 2017: HK\$516 million) with improved performance and positive market factors in mainland China as well as Hong Kong and Macao, offset by a delay in Euro VI vehicle supply in Singapore. Operating margin improved in all markets.

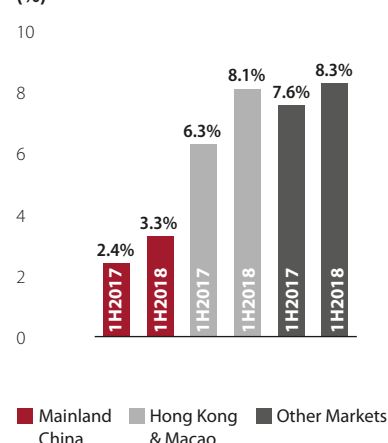
Motor Revenue by Geography
(HK\$ million)



Motor Operating Profit
(HK\$ million)



Motor Operating Margin
(%)



■ Mainland China ■ Hong Kong & Macao ■ Other Markets

■ Mainland China ■ Hong Kong & Macao ■ Other Markets

■ Mainland China ■ Hong Kong & Macao ■ Other Markets

BUSINESS REVIEW (CONTINUED)

Motor Business – Mainland China

In mainland China, DCH operates more than 100 4S shops and showrooms with a wide range of services including leasing, financing, part sales and insurance agency. Beginning in 2016, DCH began a series of business reforms and enhancements designed to prepare the segment for growth and improve profitability. Strategic measures included the centralisation of management, rationalisation of our 4S shop portfolio and increased exposure to the luxury and premium segments. Operationally we focused on stringent discounting controls, the realignment of sales incentives and KPIs, service training for front line staff and the enhancement of customer lifecycle and relationship management. In the first half of 2018, these measures continued to deliver strengthened sales and profitability across our portfolio of 4S shops.

The automotive market in mainland China was stable for the period with passenger car unit sales of 11.8 million, representing 4.6% growth against the first half of 2017 while luxury and premium vehicle sales outpaced the overall market at a 13.2% growth rate. As a result, DCH sold a total of 50,515 vehicle units, an increase of 10.5% against the first half of 2017 and revenue increased by 24.3% to HK\$14,628 million (first half 2017: HK\$11,770 million) reflecting increased exposure to the luxury and premium segments, the effectiveness of sales activities and contribution from newly-acquired dealerships.

Operating profit surged by 73.4% to HK\$482 million (first half 2017: HK\$278 million) due to successful business enhancement measures, higher unit sales and contribution from the new dealerships. Overall, the mainland China motor segment delivered an operating margin of 3.3%, up from 2.4% in the first half of 2017, attributable to the effectiveness of the sales force, the more profitable portfolio mix and pricing control initiatives that continue to deliver results.

Aftersales service revenue, which represents 9.5% of total 4S shop revenue, increased by 31.2% with an 8.8% increase in vehicles serviced to 569,772 units. Additionally, the motor leasing business, finance portfolio and insurance commission income increased against the first half of 2017.

In the second half of the year, DCH will continue to focus on operational excellence while upgrading information systems, integrating new dealerships and preparing to build on greenfield sites. In 2017, the government announced a tariff reduction for imported vehicles, which represent less than 7% of our annual unit sales, however, resulting pricing and production strategies adopted by manufacturers may have an unforeseen impact on the market in the longer term. Similarly, while US-manufactured vehicles subject to increased import duty due to Sino-US trade policies represent less than 1% of our unit sales, continued market uncertainty generated by trade tensions has the potential to negatively affect consumer confidence. We will continue to monitor the market carefully in the second half of the year.

Motor Business – Hong Kong and Macao

In Hong Kong and Macao, DCH is the dealer and distributor of 15 vehicle brands with supporting motor related businesses including motor leasing, used car trading, service outlets, parts trading, aviation services, engineering projects and the distribution of luxury yachts.

BUSINESS REVIEW (CONTINUED)

In the first half of 2018, the Hong Kong passenger car market returned to normalcy with a decline of 15.0% in unit sales against a one-off increase of 21.2% in 2017 triggered by an electric vehicle tax concession and new diesel vehicle regulations. Passenger car sales excluding electric and diesel vehicles have rebounded with a year-on-year increase of 18.0% in Hong Kong. Likewise, DCH passenger car unit sales regained market share and increased 26.9% in Hong Kong and Macao to 3,901 total units.

DCH commercial vehicle unit sales in Hong Kong and Macao decreased by 9.7% to 1,873 units as the Hong Kong government's emissions programme entered into its final stage despite 4.3% market growth driven by demand for the newly-authorized 19-seater light buses.

Revenue for the Hong Kong and Macao motor segment increased by 9.2% to HK\$2,892 million (first half 2017: HK\$2,649 million) with a 12.1% increase in vehicle unit sales as DCH passenger car sales outpaced the overall market due to strong demand and model launches. Sales were further enhanced by efforts to increase marketing efficiency through digital marketing, showroom enhancements, salesperson effectiveness and improvements in customer relationship management.

Operating profit improved significantly by 39.9% to HK\$235 million (first half 2017: HK\$168 million) from higher vehicle sales volume, prudent margin controls and efficiency enhancements. Overall, operating margin was 8.1%, an increase of 1.8 percentage points against the first half of 2017.

The motor related businesses also delivered a strong performance in both revenue and profit with growth in the aviation services, parts trading and leasing businesses. In 2018, DCH was selected as the sole operator to supply, manage and maintain zero-emissions ground service equipment ("GSE") at the Hong Kong International Airport Midfield Concourse. The GSE Pooling scheme commenced in July 2018 and lasts for a period of 10 years with a 5-year extension option.

In April of 2018, DCH began the delivery of 34 Euro VI Sinotruk street sweeping vehicles to the Hong Kong Government's Food and Environmental Hygiene Department, the first domestic Euro VI vehicles purchased by a Hong Kong government agency. Last year, DCH also secured a contract to be the sole provider of double decker cross-border shuttle buses and recovery tow trucks for the Hong Kong-Zhuhai-Macao Bridge scheduled to open in September of 2018.

Princess Yachts also recorded increased revenue with a solid pipeline for delivery. This year, DCH opened a new showroom conveniently located in the Central district of Hong Kong to enhance customer convenience while building the brand profile and expanded into the Shenzhen market with participation in the Shenzhen International Boat Show.

The outlook for the Hong Kong and Macao motor segment is stable, with a mature passenger car market, market leadership in commercial vehicles and further development opportunities in the motor related business. Looking forward, DCH will continue to focus on securing commercial vehicle market share, solidifying our reputation as a best-in-class service leader and adopting a smarter approach to customer lifecycle management to maintain profitability in a well-developed market.

BUSINESS REVIEW (CONTINUED)

Motor Business – Other Markets

The other markets motor business segment includes motor operations in Taiwan, Singapore and Myanmar. The Taiwan motor business comprises vehicle distribution and sales, a semi-knocked down (“SKD”) assembly facility and aftersales services. In Singapore, our motor business includes the sales and distribution of commercial vehicles, aftersales services, vehicle leasing and parts trading. In the first half of 2018, DCH was awarded a vehicle importing licence for Myanmar and will continue to explore market expansion opportunities.

Revenue for the first half of 2018 decreased by 29.3% to HK\$650 million (first half 2017: HK\$919 million) primarily due to the delay of Euro VI vehicle supply in Singapore, one of the first Asian right-hand drive markets to adopt Euro VI emission standards for commercial vehicles. Operating profit decreased by 22.9% to HK\$54 million (first half 2017: HK\$70 million) due to the sales shortfall in Singapore which offset improved operating profit in Taiwan.

The delivery of Euro VI vehicles ordered in the first half of 2018 has begun and is anticipated to be completed by the end of the year, but our market outlook remains prudent due to other market factors in Singapore including the completion of the Singapore government’s early retirement programme for commercial vehicles in 2017, the Land Transport Authority’s zero vehicle growth policy in 2018 and the cancellation of the Malaysia-Singapore high speed rail project.

BUSINESS REVIEW (CONTINUED)

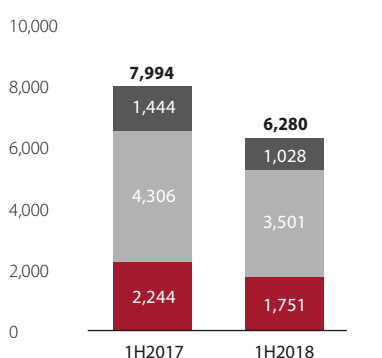
CONSUMER PRODUCTS BUSINESS

As an integrated distribution platform, DCH distributes over 1,000 brands in a diverse range of product categories including food and fast moving consumer goods (“FMCG”), healthcare and electrical products, supported by end-to-end logistics services. Our businesses extend across brand development, manufacturing, commodity trading, agency distribution, retail and aftersales with operations in Hong Kong, Macao, Taiwan, mainland China, Japan, Singapore, Thailand, Malaysia, Indonesia, the Philippines and Brunei.

In the consumer products segment, business integration and portfolio optimisation has generated synergies and solid results in the segment’s largest business, food and FMCG agency distribution in Hong Kong and Macao, as well as in logistics. The healthcare business delivered market share growth in Southeast Asia but was impacted by a government policy shift towards generic and domestically produced pharmaceuticals in mainland China. The electrical products business improved slightly with growth in mainland China and appliance sales for property development projects.

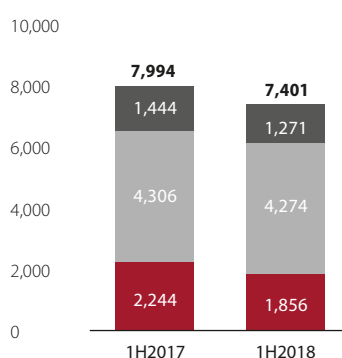
However, business reengineering efforts continue in the consumer products segment with a ground-up revision of cost and service structures in mainland China and the streamlining of businesses in Southeast Asia. Active portfolio and market optimisation across the segment has resulted in a 7.4% decrease in revenue on a like-for-like basis and a 21.4% decrease after the application of HKFRS 15 to HK\$6,280 million (first half 2017: HK\$7,994 million), but is expected to provide greater focus and profitability going forward. During the restructuring, the consumer products segment recorded an operating loss of HK\$3 million (first half 2017: HK\$138 million profit) as we continue to improve our operational capabilities.

Consumer Products Revenue by Geography (HK\$ million)



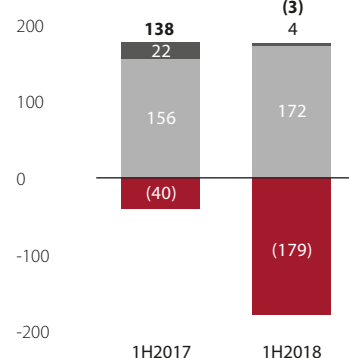
■ Mainland China ■ Hong Kong & Macao ■ Other Markets

Consumer Products Revenue excluding HKFRS 15 (HK\$ million)



■ Mainland China ■ Hong Kong & Macao ■ Other Markets

Consumer Products Operating Profit/(Loss) (HK\$ million)



■ Mainland China ■ Hong Kong & Macao ■ Other Markets

Food and FMCG

The food and FMCG business represents 71.1% of the consumer products segment by revenue with operations in Hong Kong and Macao, mainland China and other markets. The Hong Kong and Macao business is the largest by revenue and operating profit and includes agency distribution, food commodity trading, retail and food manufacturing operations. In mainland China and Southeast Asia, DCH is primarily an agency distributor and operates food processing facilities.

BUSINESS REVIEW (CONTINUED)

Food and FMCG – Hong Kong and Macao

In the Hong Kong and Macao food and FMCG business, revenue decreased by 10.9% with the adoption of HKFRS 15 but was stable with a slight increase of 0.9% on a like-for-like basis. Operating profit increased by 20.9% due to improved performances in food retail, food commodity trading and manufacturing with a slight decrease in the agency distribution business.

In our food and FMCG agency distribution business, we offer localised marketing and supply chain services to a diversified portfolio of market-leading household brands such as Pocari Sweat, Oreo, Hershey's, Ovaltine, Fonterra and Nivea, delivering into major retailers and caterers in the Hong Kong market. With the inclusion of the Integrated Market Services Asia ("IMSA") agency distribution business, DCH has become one of the largest food and FMCG agency distributors in Hong Kong. In the first half of 2018, DCH focused on optimising brand, product and channel portfolios while protecting margin and market share by offering products that appeal to changing consumer preferences. Revenue was stable excluding the impact of HKFRS 15, however operating profit decreased slightly due to the impact of parallel importing and aggressive pricing competition.

Our food commodity trading business sources over 600 products from more than 30 countries in the meat, seafood, produce and grocery categories for wholesale and retail. Revenue and operating profit in the food commodity trading business increased despite aggressive pricing adopted by competitors as we expanded our market penetration in high-end retail and fine dining channels and adjusted the product mix to include more premium and healthy food choices.

Our retail business operates Food Mart and Food Mart Deluxe stores which offer specialty meat and seafood products alongside home cooking requirements in 49 locations. After extensive rebranding, marketing efforts and store portfolio optimisation, the performance of the food retail business has improved and we will continue to focus on enhancing the customer experience through store renovation, redemption promotions and mobile payment systems.

In 2017, our meat and seafood processing operations were consolidated and relocated to ISO 22000 and HACCP certified facilities in Yuen Long to enhance synergy and have delivered improved profitability. Facing a contraction in the processed meat market due to changing consumer preferences and competition from overseas suppliers, food manufacturing is currently reviewing its product portfolio, packaging and recipes to protect long term performance.

The outlook for the overall Hong Kong and Macao food and FMCG business is stable as ongoing business and portfolio enhancement measures are expected to drive synergies and protect market share in a challenging competitive environment. We do not anticipate Sino-US trade tensions to have a direct impact on our Hong Kong and Macao businesses as the markets operate as a free trade zones, but as systematic and long-term risks are yet to be determined, we are continually assessing market developments.

BUSINESS REVIEW (CONTINUED)

Food and FMCG – Mainland China

In mainland China, DCH operates a food trading and FMCG agency distribution business and two food manufacturing facilities.

The mainland China consumer market represents an essential business development area for DCH and we have diligently focused on fine-tuning our business model while developing expertise and unlocking synergies. Last year we implemented prudent inventory and promotional controls while restructuring the organisation. This year, we have optimised our brand portfolio and product range, resulting in a revenue decrease of 9.3%.

The business recorded an operating loss during the implementation of the business enhancement programme but we are working steadily towards a turnaround in profitability, adopting best practices, realigning KPIs and incentives while reviewing our channel mix. In the second half of the year, we will continue to build the performance expertise and partnerships necessary to serve evolving consumer needs in the dynamic China consumer marketplace. While current tariffs on US imports have only impacted a few of our many food and FMCG brands, we will continue to monitor the situation closely, working with brand and channel partners to manage pricing and supply levels.

Food and FMCG – Other Markets

In Southeast Asia, DCH distributes a balanced portfolio of food and FMCG products including personal care and household goods covering Japan, Singapore, Taiwan, Malaysia, Indonesia, Brunei and the Philippines. DCH also operates a food and beverage contract manufacturing facility in Malaysia that produces snacks, beverages and healthcare products for Asian markets.

After a review of our operations in Southeast Asia, we have begun to streamline the business to enhance profitability and focus efforts where we have identified competitive advantages and strong growth opportunities. Accordingly, revenue of the food and FMCG business in other markets decreased by 37.8% due to restructuring in Singapore and East Malaysia which resulted in a loss from operations but is anticipated to benefit future earnings.

In Malaysia, our manufacturing business focused on operational cost management, productivity and yield improvements as market conditions remain challenging due to rising costs and increased goods and service tariffs.

Southeast Asia remains an important growth market for DCH and our second half outlook is stronger with new business in the pipeline and higher volume forecasts from existing partners. Our expansion into dairy and nutrition ranges will serve consumer preferences for a healthier lifestyle while protecting future profitability. Going forward, we will pursue new business and partnerships in core markets to increase market share and achieve economies of scale.

BUSINESS REVIEW (CONTINUED)

Healthcare Distribution

DCH entered the healthcare and pharmaceutical distribution business in July 2016 and now offers comprehensive supply chain solutions as DCH Auriga to partners including the world's leading health and life science companies. Operations span Greater China and Southeast Asia and cover product categories including pharmaceuticals, over-the-counter medicine, medical devices, personal care, nutrition and hospital consumables.

On a like-for-like basis, revenue for the healthcare distribution business decreased by 9.5% and operating profit decreased by 10.3% as growth in Southeast Asia was offset by reduced revenue related to a policy shift to promote the adoption of generic and domestically produced pharmaceuticals in mainland China, particularly in the public health system. After the application of HKFRS 15, revenue decreased by 52.0%.

In 2018, DCH completed the development of a new distribution centre in Thailand and began to transition healthcare operations into its new flagship distribution centre in Hong Kong, which will be equipped with state-of-the-art facilities to offer specialty services including Radio Frequency Identification enhanced inventory tracking, advanced cold chain, robotic pick-and-pack services and express delivery.

Despite the challenges in mainland China, the long-term outlook for the healthcare business remains positive with infrastructure investments generating significant interest, market share growth in Southeast Asia and favourable market dynamics including rising middle class incomes, ageing demographics and increases in government spending across Asia.

Electrical Products Distribution

The DCH electrical products distribution business distributes, retails and provides aftersales services for a wide range of domestic and international brands in the electrical, audio-visual, 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.

Revenue for the electrical products business increased by 6.0% with the continued growth of appliance and installation sales to property developers and warm weather bolstering air-conditioner sales. Operating profit was stable with an increase of 5.9% despite warehouse relocation costs and an unseasonably warm winter, which triggered intense retail competition and discounting on heating products.

The outlook for 2018 is stable with a strong property development pipeline and expansion opportunities in personal audio and lifestyle products, particularly in mainland China. In Hong Kong, we are preparing for the commencement of the Waste Electrical and Electronic Equipment Recycling Programme in August 2018, which requires manufacturers and distributors to prepay disposal fees and may have an impact on our profitability as the market adjusts to the new requirement.

BUSINESS REVIEW (CONTINUED)

Logistics Solutions

The logistics business operates distribution centres and fleets providing comprehensive supply chain solutions to both internal and external customers. Our extensive supply chain network includes distribution centres in mainland China, Hong Kong and Macao offering warehousing, transportation, freight forwarding, cold chain logistics, processing and repacking services.

Following integration efforts across Greater China, the logistics business has improved its profitability and rationalised its customer portfolio. While revenue decreased by 5.2% following the portfolio optimisation, operating profit improved significantly by 50.0% as a result of ongoing efforts to upgrade facilities, increase utilisation rates and control overhead costs.

In the second half of the year, we will continue consolidating the supply chains of our consumer products businesses and strengthening our network in Southern and Eastern China. As part of our strategy to serve the Greater Bay Area, DCH will open a new 45,000 square metre distribution centre in the Hengqin free trade zone in 2019 to meet demand for premium supply chain services following the opening of the Hong Kong-Zhuhai-Macao Bridge.

FINANCIAL REVIEW

REVENUE

Revenue for the first half of 2018 was HK\$24,474 million, representing an increase of 4.8% compared with HK\$23,352 million for the same period last year. However, beginning in 2018, the Group adopted the recognition of revenue under HKFRS 15 which came to effect on 1 January 2018 and reported net instead of gross receipts from agency service businesses. On a like-for-like basis, Group revenue for the first half of 2018 indeed has increased by 9.8% to HK\$25,639 million.

Motor Business

The motor business segment revenue accounted for 74.2% of the Group's total revenue. Excluding the impact of HKFRS 15, segment revenue increased by 18.7% to HK\$18,217 million (first half 2017: HK\$15,341 million). The increase was attributable to a 24.3% increase in the mainland China segment resulting from enhanced sales effectiveness, favourable contribution from premium and luxury vehicles and the acquisition of dealerships last year as well as a 11.2% increase in the Hong Kong and Macao segment following the gain in passenger car market share and strong growth in the motor related businesses. These increases were slightly offset by a 30.5% drop in the other markets segment due to the delay in the delivery of Euro VI compliant commercial vehicles in Singapore.

Consumer Products Business

Revenue from the consumer products business segment dropped by 21.4% to HK\$6,283 million (first half 2017: HK\$7,994 million) primarily due to the impact of HKFRS 15. On a like-for-like basis, segment revenue only decreased by 7.4% as a result of reduced revenue in the mainland China and other markets food and FMCG businesses, as well as mainland China healthcare. Revenue in the food and FMCG business dropped due to business restructuring in mainland China and Southeast Asia. The Hong Kong and Macao performance was stable. Revenue from the healthcare distribution business dropped in mainland China due to the sales impact of a market shift towards generic medicine. Hong Kong and Macao healthcare dropped slightly but the drop was completely offset by market share gains in Southeast Asia. The electrical products business increased in revenue due to growth in property project sales and lifestyle electronics while revenue from the logistics solutions decreased as a result of portfolio optimisation.

SEGMENT PROFIT/(LOSS) AFTER TAXATION

Segment profit after taxation for the first half of 2018 was HK\$580 million, an increase of 11.3% as compared with HK\$521 million for the same period last year.

Motor Business

Segment profit after taxation increased by 56.1% to HK\$604 million (first half 2017: HK\$387 million), driven by sales growth and improved profitability in mainland China as a result of business enhancement efforts and increased passenger cars sales in Hong Kong and Macao, as well as improved performance in the motor related business, offset by Euro VI commercial vehicles delivery delay in Singapore.

FINANCIAL REVIEW (CONTINUED)

Consumer Products Business

Segment loss after taxation was HK\$44 million (first half 2017: HK\$111 million profit) due to ongoing performance challenges in the restructuring food and FMCG business in mainland China and costs incurred for streamlining businesses in East Malaysia and Singapore. Conversely, the food and FMCG business in Hong Kong and Macao delivered a profit increase of 19.2% against the first half of 2017 as a result of consolidation and portfolio upgrades which drove improvement in the food commodity trading, retail and manufacturing businesses. The logistics solutions business outperformed the same period last year following successful restructuring to consolidate supply chains and generate synergies. The healthcare distribution business is on par with last year as the shortfall in mainland China related to market dynamics was offset by strong performances in the Hong Kong and Macao and Southeast Asia market segments. The electrical products business performance remained steady as compared to last year.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders of the Company for the first half of 2018 was HK\$275 million, an increase of 18.5% (first half 2017: HK\$232 million). The improved performance was driven by sustained profitability enhancements in the motor business, which was partly offset by losses in the food and FMCG business in mainland China and restructuring costs in streamlining businesses in Southeast Asia.

EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 was based on the profit attributable to shareholders of the Company and the weighted average number of 1,847,038,804 (first half 2017: 1,832,133,000) ordinary shares in issue during the period. Basic earnings per share was 14.89 HK cents for the six months ended 30 June 2018, an increase of 17.6% as compared with 12.66 HK cents for the same period of 2017.

The diluted earnings per share for the six months ended 30 June 2017 and 2018 were the same as the basic earnings per share since the potential ordinary shares for the outstanding share options are anti-dilutive.

DIVIDEND PER SHARE

An interim dividend of 5.05 HK cents (first half 2017: 5.05 HK cents) per share was declared after the end of the reporting period.

FINANCIAL REVIEW (CONTINUED)

FINANCE COSTS

The Group's finance costs increased by 11.5% to HK\$107 million (first half 2017: HK\$96 million) mainly due to the consecutive interest rate hikes starting from the second half of 2017. Despite that, the Group's effective interest rate only depicted a minimal increase as a result of a series of successful negotiations with the banks to mitigate the Group's interest burden.

INCOME TAX

Income tax was HK\$184 million (first half 2017: HK\$151 million), representing an increase of 21.9%. The effective tax rate for the period was 35.0% (first half 2017: 35.2%) due to increased losses from the consumer product business in mainland China which was partly compensated by the implementation of a tax review programme.

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\$10,622 million (31 December 2017: HK\$10,712 million) and the 1,847,038,804 ordinary shares issued on 30 June 2018 (31 December 2017: 1,847,038,804 ordinary shares). The slight decrease in net asset value reflects the impact of RMB depreciation. Net asset value per share at 30 June 2018 was HK\$5.75 (31 December 2017: HK\$5.80).

CAPITAL COMMITMENTS

Please refer to note 22 to the interim financial report for details on capital commitments outstanding at 30 June 2018.

CONTINGENT LIABILITIES

Please refer to note 24 to the interim financial report for details on contingent liabilities at 30 June 2018.

FINANCIAL REVIEW (CONTINUED)

CAPITAL EXPENDITURE

In the first half of 2018, the Group's total capital expenditure on property, plant and equipment and lease prepayments was HK\$502 million (first half 2017: HK\$322 million) and major usages are summarised as follows:

- | | |
|--|---|
| Motor Business | <ul style="list-style-type: none"> Renovation of 45 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, plant and equipment |
| Consumer Products Business | <ul style="list-style-type: none"> Office renovation, fixtures and fittings, plant and equipment as well as logistics facilities |
| Other Businesses and Corporate Offices | <ul style="list-style-type: none"> Office renovation, fixtures and fittings, plant and equipment |

HK\$ million	1-6/2018	1-6/2017	Change
Motor Business	348	254	94
Consumer Products Business	66	54	12
Other Businesses	14	9	5
Corporate Offices	74	5	69
Total	502	322	180

TREASURY POLICY

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

Cash management and financing activities of operating entities in Hong Kong are centralised at the 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 of Hong Kong are responsible for their own cash management and risk management which are closely monitored by the head office. Financing activities outside of Hong Kong are reviewed and approved by the head office before execution.

FINANCIAL REVIEW (CONTINUED)

CASH FLOW

Summary of Condensed Consolidated Cash Flow Statement

HK\$ million	1-6/2018	1-6/2017	Change
Operating profit before changes in working capital	945	812	133
Decrease in working capital	94	238	(144)
Cash generated from operations	1,039	1,050	(11)
Tax paid	(343)	(179)	(164)
Net cash generated from operating activities	696	871	(175)
Net cash (used in)/generated from investing activities	(763)	252	(1,015)
Dividends paid to shareholders of the Company	–	(68)	68
Net cash used in financing activities	(25)	(530)	505
Net (decrease)/increase in cash and cash equivalents	(92)	525	(617)
Cash and cash equivalents at 1 January	1,013	1,042	(29)
Net (decrease)/increase in cash and cash equivalents	(92)	525	(617)
Effect of foreign exchange rates changes	(10)	35	(45)
Cash and cash equivalents at 30 June	911	1,602	(691)

Overview

The Group maintained a healthy cash position for the period. With the solid revenue growth driven by the strong performances in the mainland China and Hong Kong motor businesses, as well as the Hong Kong and Macao consumer products business, the operating profit before changes in working capital was HK\$945 million (first half 2017: HK\$812 million). The Group maintained prudent working capital management with a reduction of HK\$94 million in working capital primarily driven by better receivables management. Net cash used in investing activities was HK\$763 million, while net cash used in financing activities was HK\$25 million. At 30 June 2018, the cash and cash equivalents balance was HK\$911 million, reduced by HK\$102 million compared to the beginning of the year (31 December 2017: HK\$1,013 million).

Operating profit before changes in working capital

Profit before taxation was HK\$526 million for the six months ended 30 June 2018 (first half 2017: HK\$429 million). After adding back non-cash items, operating profit before changes in working capital was HK\$945 million (first half 2017: HK\$812 million). The increase was due to strong Group performance and revenue growth in the motor business segment.

FINANCIAL REVIEW (CONTINUED)

Decrease in working capital

Working capital decreased by HK\$94 million (first half 2017: decreased by HK\$238 million) which included the increase in inventories of HK\$399 million (first half 2017: decrease of HK\$156 million) and the decrease in creditors and other current liabilities of HK\$248 million (first half 2017: decrease of HK\$394 million) which was more than offset by the decrease in debtors and other current assets of HK\$741 million (first half 2017: decrease of HK\$476 million). The increase in inventories was mainly due to the increase in stock of commercial vehicles ahead of the adoption of the new emission standards in Hong Kong and Taiwan. The decrease in debtors and other current assets was driven by the improvement in collection and ageing receivables management in the consumer products business.

Net cash generated from operating activities

Cash generated from operations was HK\$1,039 million (first half 2017: HK\$1,050 million). Netting tax payment of HK\$343 million (first half 2017: HK\$179 million), net cash generated from operating activities was HK\$696 million (first half 2017: HK\$871 million). The higher tax paid in the current period was mainly due to the settlement of profit tax from the sales of a building in Japan last year. The Group's effective tax rate for the period was 35.0% (first half 2017: 35.2%).

Net cash used in investing activities

Net cash used in investing activities was HK\$763 million (first half 2017: HK\$252 million generated from investing activities) primarily for the remaining settlement of the acquisition of dealerships in eastern China and the investment in Tamar Alliance Fund.

Net cash used in financing activities

Net cash used in financing activities was HK\$25 million (first half 2017: HK\$598 million). The net proceeds from bank loans was HK\$121 million (first half 2017: HK\$407 million net repayment) and the net outflow to non-controlling interests was HK\$41 million (first half 2017: HK\$28 million). Interest paid was HK\$105 million (first half 2017: HK\$95 million). No dividends were paid to equity shareholders for the period (first half 2017: HK\$68 million). The increase in bank loans for the period was primarily used to settle the payment of acquisition and investing activities.

FINANCIAL REVIEW (CONTINUED)

GROUP DEBT AND LIQUIDITY

The cash and debt position of the Group at 30 June 2018 is summarised as follows:

HK\$ million	30 June 2018	31 December 2017	Change
Total debt	7,073	6,927	146
Less: Cash and bank deposits	1,083	1,138	(55)
Net debt	5,990	5,789	201

At 30 June 2018, the Group's net debt position was HK\$5,990 million (31 December 2017: HK\$5,789 million), slightly increased by HK\$201 million as a result of the increase in debt of HK\$146 million and the decrease in cash of HK\$55 million used primarily to settle the payment of investment activities.

The original denomination of the Group's borrowings and cash and bank deposits by currency at 30 June 2018 is summarised as follows:

HK\$ million equivalent	HKD	RMB	JPY	USD	SGD	NTD	THB	Others	Total
Total debt	3,815	617	158	2,449	-	14	-	20	7,073
Less: Cash and bank deposits	71	662	38	14	44	113	76	65	1,083
Net debt/(cash)	3,744	(45)	120	2,435	(44)	(99)	(76)	(45)	5,990

The Group's debt was mainly denominated in HKD and USD as the borrowing costs for these two currencies were relatively lower. The Group held more cash in RMB as our major cash generating business is the motor business in mainland China.

Leverage

The below table shows the total capital and the net gearing ratio of the Group at 30 June 2018 and 31 December 2017.

HK\$ million	30 June 2018	31 December 2017	Change
Net debt	5,990	5,789	201
Shareholders' funds	10,076	10,145	(69)
Total capital	16,066	15,934	132
Net gearing ratio	37.3%	36.3%	1%

The Group maintained a healthy gearing ratio of 37.3%. The position was steady with slight changes in shareholders' funds and net debt.

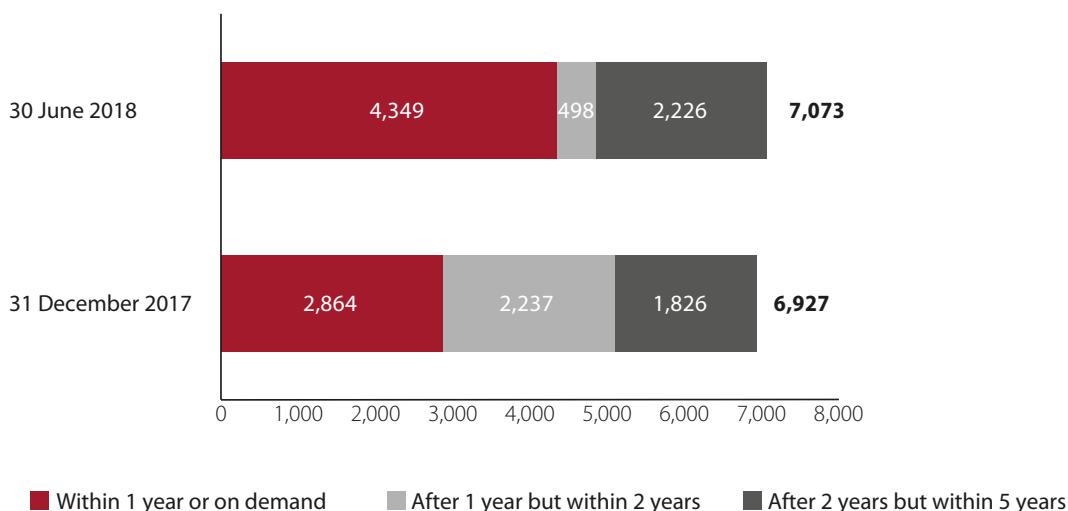
FINANCIAL REVIEW (CONTINUED)

The effective interest rate of the Group's borrowings for the period was 3.0% (31 December 2017: 2.5%). The effect of interest rate hikes in the US led to an increase in the effective interest cost of the Group. From December 2017 to June 2018, there were three interest rate hikes in the US totaling 75 basis points, but the Group's effective interest cost only increased by 50 basis points. The Group has actively negotiated with banks to mitigate the Group's interest burden.

Maturity Profile of Outstanding Debt

The Group actively manages its debt maturity profile based on its cash flow and refinancing ability upon debt maturity. The graph below shows the debt maturity profile of the Group at 30 June 2018 and 31 December 2017.

Maturity Profile of Outstanding Debt (HK\$ million)



The portion of debt maturing within 1 year increased because part of the term loans became due within 1 year as of 30 June 2018. The portion of debt maturing after 2 years increased by HK\$400 million mainly due to the refinancing of term loans. The Group will continue to refinance term loans upon maturity and maintain a healthy maturity profile.

Sources of Financing

The below table shows the source of financing at 30 June 2018:

HK\$ million	30 June 2018	31 December 2017	Change
Utilised term loans and revolving loans	5,207	5,207	-
Utilised money market lines	1,854	1,635	219
Discounted bills and trade loans	7	80	(73)
Others	5	5	-
Total	7,073	6,927	146

FINANCIAL REVIEW (CONTINUED)

Committed vs. Uncommitted Facilities

HK\$ million	30 June 2018			31 December 2017		
	Total	Utilised	Available	Total	Utilised	Available
Committed facilities:						
Term loans and revolving loans	5,797	5,207	590	5,897	5,207	690
Uncommitted facilities:						
Money market lines	9,997	1,854	8,143	10,052	1,635	8,417
Total loan facilities	15,794	7,061	8,733	15,949	6,842	9,107
Trading facilities	6,206	1,176	5,030	6,153	771	5,382
Total	22,000	8,237	13,763	22,102	7,613	14,489

The Group maintains sufficient banking facilities to support the business. At 30 June 2018, facilities totaled HK\$22,000 million including total loan facilities of HK\$15,794 million and trading facilities of HK\$6,206 million. Within the total loan facilities of HK\$15,794 million, committed facilities totaled HK\$5,797 million, representing 37% of total loan facilities. Uncommitted facilities totaled HK\$9,997 million, representing 63% of total loan facilities. Utilised loan facilities totaled HK\$7,061 million, representing 45% of total loan facilities. Undrawn available loan facilities totaled HK\$8,733 million. The Group will ensure adequate financing resources are maintained to support the future growth of the business.

PLEGGED ASSETS

At 30 June 2018, the Group's assets of HK\$331 million (31 December 2017: HK\$372 million) were pledged in relation to the financing of bank acceptance drafts and the purchase of vehicle stock in mainland China, discounted bills in Japan and discounted bankers acceptance drafts 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 30 June 2018, the Group has 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 "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.

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 to 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.

At 30 June 2018, the Group had total outstanding interest rate and cross currency swaps with a total notional contract amount of HK\$1,326 million (31 December 2017: HK\$1,776 million).

The Group also recognised interest rate and cross currency swaps as derivative financial instruments (assets) with a fair value of HK\$18 million (31 December 2017: HK\$13 million assets).

Interest rates for 25% of committed bank borrowings were fixed by interest rate and cross currency swaps and the coverage was appropriate.

RISK MANAGEMENT (CONTINUED)

(2) Currency risk

For bank borrowings, the 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 existing foreign currency forward contracts primarily for hedging its sales and purchases denominated in currencies other than the functional currency of the operations to which they related. At 30 June 2018, the Group recognised foreign currency forward contracts as derivative financial instruments (liabilities) with a fair value of HK\$0.02 million (31 December 2017: HK\$2 million liabilities).

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 30 June 2018 was HK\$85 million (31 December 2017: HK\$83 million).

As of 30 June 2018, the Group has reviewed its hedging position for foreign currency 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 that the Group deals with appropriate counterparties whose ability has been evaluated and concentration risk is addressed.

The limits should be correlated to the bank's credit rating, loan limit granted to the Group and 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 coming 12 months and comparing liquid assets with short-term liabilities.

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

RISK MANAGEMENT (CONTINUED)

(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 30 June 2018, the Group has reviewed the default rate of finance lease receivables and considered it normal.

The Group is actively exploring opportunities to further reduce credit risk exposure in the finance lease business, including seeking cooperation with financial institutions to enhance its credit assessment capability and to reduce 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 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 prepayments will be reimbursed and recoverable from the principals when proper documentation and confirmation are obtained.

RISK MANAGEMENT (CONTINUED)

The Group and relevant subsidiaries have 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 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 include the sales and distribution of food, healthcare products, motor vehicles and household electrical appliances, and require the highest level of reliability, quality, and above all safety. Government regulations along with expectations from consumers and stakeholders compel the Group to remain vigilant regarding potential product safety concerns. The Group also operates logistics services which can be subject to product loss or damage and 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, operational 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 all regulatory requirements. 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 to protect 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.

RISK MANAGEMENT (CONTINUED)

(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 as 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. We utilise our diversified platform to build synergies among our different business sectors to accelerate stock clearance action plans. 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 established 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 for employees, performing regular reviews, analysing exception reports, and implementing a whistle blowing programme.

TALENT MANAGEMENT AND DEVELOPMENT

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. As of 30 June 2018, the Group had a total of 17,298 employees, with 11,196 in mainland China, 4,453 in Hong Kong and Macao, and 1,649 in other locations, including Japan, Taiwan, Singapore, Myanmar, Indonesia, Malaysia, Brunei, Thailand and the Philippines. The number of employees decreased by 2.6% as of December 2017 and increased by 0.8% as of June 2017.

Location	June 2018	December 2017	June 2017	June 2018 vs. December 2017	June 2018 vs. June 2017
Mainland China	11,196	11,179	10,517	0.2%	6.5%
Hong Kong & Macao	4,453	4,675	4,702	(4.7%)	(5.3%)
Other Locations	1,649	1,897	1,950	(13.1%)	(15.4%)
Total	17,298	17,751	17,169	(2.6%)	0.8%

DCH offers competitive compensation and benefits to attract, motivate and retain talent. An annual review of these programmes is conducted to ensure market competitiveness; mid-year reviews are also implemented for selected functions and individuals in response to market and labour conditions. The Group embraces the principle of “pay for performance” and has linked rewards to the achievement of key performance indicators, incentivising employees to work towards company objectives.

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. As a part of the Group’s commitment to employee safety and health, regular reviews and audits are performed in accordance with the statutory and industry requirements.

As talent development and retention is important to ensure sustainable business success, DCH provides a wide range of internal and external training courses to employees. As of 30 June 2018, more than 9,000 participants attended over 63,000 hours of induction, management, technical, soft skills and ethical training programmes. To promote a company-wide corporate culture and strong corporate values, DCH also focused on enhancing internal communications with interactive workshops, business review meetings, bi-weekly newsletters and training sessions with the CEO.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HK\$ million	Note	Unaudited Six months ended 30 June	
		2018	2017
Revenue	3(a)	24,474	23,352
Cost of sales		(21,042)	(20,159)
Gross profit		3,432	3,193
Other net income	4	137	123
Selling and distribution expenses		(1,934)	(1,901)
Administrative expenses		(1,017)	(913)
Profit from operations		618	502
Finance costs	5(a)	(107)	(96)
Share of profit after tax of associates		8	11
Share of profit after tax of joint ventures		7	12
Profit before taxation	5	526	429
Income tax	6	(184)	(151)
Profit for the period		342	278
Attributable to:			
Shareholders of the Company		275	232
Non-controlling interests		67	46
		342	278
Basic and diluted earnings per share (HK cents)	8	14.89	12.66

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

HK\$ million	Unaudited Six months ended 30 June	
	2018	2017
Profit for the period	342	278
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside Hong Kong:		
– subsidiaries	(75)	341
– associates and joint ventures	(5)	12
Effect on cash flow hedge, net of tax	4	1
Reserves released upon disposal of subsidiaries	(16)	6
Other comprehensive (loss)/income for the period, net of tax	(92)	360
Total comprehensive income for the period	250	638
Attributable to:		
Shareholders of the Company	189	570
Non-controlling interests	61	68
	250	638

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$ million	Note	Unaudited 30 June 2018	Audited 31 December 2017
Non-current assets			
Property, plant and equipment	9	3,869	3,784
Investment properties	10	233	229
Lease prepayments	11	843	858
Intangible assets	12	1,824	1,880
Goodwill	13	2,757	2,760
Interests in associates		303	214
Interests in joint ventures		351	347
Other non-current assets	14	797	870
Deferred tax assets		111	84
		11,088	11,026
Current assets			
Inventories	15	6,570	6,891
Assets held for sale	16	22	4
Debtors and other current assets	17	8,178	8,148
Current tax recoverable		39	44
Cash and bank deposits		1,083	1,138
		15,892	16,225
Current liabilities			
Borrowings	18	4,349	2,864
Creditors and other current liabilities	19	8,479	8,442
Current tax payable		162	283
		12,990	11,589
Net current assets		2,902	4,636
Total assets less current liabilities		13,990	15,662
Non-current liabilities			
Borrowings	18	2,724	4,063
Other non-current liabilities	20	117	338
Deferred tax liabilities		527	549
		3,368	4,950
Net assets		10,622	10,712

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

HK\$ million	Note	Unaudited 30 June 2018	Audited 31 December 2017
Capital and reserves			
Share capital	21(a)	1,535	1,535
Other reserves		8,541	8,610
Total equity attributable to shareholders of the Company			
		10,076	10,145
Non-controlling interests			
		546	567
Total equity			
		10,622	10,712

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to shareholders of the Company

	Share capital (21(a))	General reserve (21(b))	Capital reserve	Statutory surplus reserve	Merger reserve	Share option reserve	Exchange fluctuation reserve	Asset revaluation reserve	Hedging reserve	Retained profits	Total	Non-controlling interests	Total equity
HK\$ million Unaudited													
Six months ended 30 June 2018	Note (21(a))	Note (21(b))											
At 31 December 2017	1,535	48	143	98	(43)	27	251	38	3	8,045	10,145	567	10,712
Impact on initial application of HKFRS 15	-	-	-	-	-	-	-	-	-	(41)	(41)	-	(41)
Adjusted balance at 1 January 2018	1,535	48	143	98	(43)	27	251	38	3	8,004	10,104	567	10,671
Profit for the period	-	-	-	-	-	-	-	-	-	275	275	51	326
Other comprehensive (loss)/income	-	-	-	-	-	-	(90)	-	4	-	(86)	(6)	(92)
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(90)	-	4	275	189	45	234
Fair value adjustment on put options written on non-controlling interests	21(b)	1	-	-	-	-	-	-	-	-	1	-	1
Disposal of subsidiaries	-	-	(1)	(1)	-	-	-	-	-	2	-	(8)	(8)
Acquisition of subsidiaries from non-controlling interests	-	2	-	-	-	-	-	-	-	-	2	(3)	(1)
Lapse of share options	-	-	-	-	-	(1)	-	-	-	1	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	(220)	(220)	-	(220)
Dividends to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(55)	(55)
At 30 June 2018	1,535	51	142	97	(43)	26	161	38	7	8,062	10,076	546	10,622

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

HK\$ million Unaudited Six months ended 30 June 2017	Attributable to shareholders of the Company										Non- controlling interests	Total equity	
	Share capital (21(a))	General reserve (21(b))	Capital reserve	Statutory surplus reserve	Merger reserve	Share option reserve	Exchange fluctuation reserve	Asset revaluation reserve	Hedging reserve	Retained profits			Total
At 1 January 2017	1,477	86	143	88	(43)	80	(455)	37	(9)	7,328	8,732	512	9,244
Profit for the period	-	-	-	-	-	-	-	-	-	232	232	41	273
Other comprehensive income	-	-	-	-	-	-	337	-	1	-	338	22	360
Total comprehensive income for the period	-	-	-	-	-	-	337	-	1	232	570	63	633
Transfer to retained profits	-	(64)	-	-	-	-	-	-	-	64	-	-	-
Disposal of a subsidiary	-	-	-	(1)	-	-	-	-	-	1	-	(6)	(6)
Share-based payments	-	-	-	-	-	(3)	-	-	-	-	(3)	-	(3)
Lapse of share options	-	-	-	-	-	(50)	-	-	-	50	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	(68)	(68)	-	(68)
Dividends to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(79)	(79)
At 30 June 2017	1,477	22	143	87	(43)	27	(118)	37	(8)	7,607	9,231	490	9,721

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

HK\$ million	Note	Unaudited Six months ended 30 June	
		2018	2017
Profit before taxation		526	429
Adjustment for non-cash and non-operating items		419	383
Operating profit before changes in working capital		945	812
Changes in working capital:			
– (Increase)/decrease in inventories		(399)	156
– Decrease in debtors and other current assets		741	476
– Decrease in creditors and other current liabilities		(248)	(394)
Cash generated from operating activities		1,039	1,050
Income tax paid		(343)	(179)
Net cash generated from operating activities		696	871
Net cash (used in)/generated from investing activities:			
– Net cash outflow for business combination		(309)	(91)
– Net cash outflow for capital injection to associates		(90)	(9)
– Net cash inflow from disposal of subsidiaries		–	264
– Other investing activities		(364)	88
Net cash (used in)/generated from financing activities:			
– Dividends paid to shareholders of the Company		–	(68)
– Interest paid		(105)	(95)
– Net proceeds from drawdown/(repayment) of bank borrowings and other loans		121	(407)
– Other financing activities		(41)	(28)
Net (decrease)/increase in cash and cash equivalents		(92)	525
Cash and cash equivalents at 1 January		1,013	1,042
Effect of foreign exchange rates changes		(10)	35
Cash and cash equivalents at 30 June		911	1,602
Analysis of the balances of cash and cash equivalents:			
Cash and bank deposits		1,083	1,713
Less:			
Pledged bank deposits	18	(81)	(88)
Bank deposits with maturity over 3 months		(4)	–
Bank overdrafts	18	(87)	(23)
		911	1,602

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

The interim financial report comprises the financial information of Dah Chong Hong Holdings Limited (“the Company”) and its subsidiaries (collectively referred to as “the Group”) and the Group’s interests in associates and joint ventures.

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the adoption of all relevant new and/or revised Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs, amendments and interpretations (“revised standards”), which are effective for the current accounting period. Details of any changes in accounting policies are set out in Note 2.

The preparation of this interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 63.

The financial information relating to the financial year ended 31 December 2017 that is included in this interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to those statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6, to the Hong Kong Companies Ordinance. The Company’s auditor has reported on those financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

1. BASIS OF PREPARATION (CONTINUED)

The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of revised standards that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 40 (Amendments), *Transfers of Investment Property*
- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK (IFRIC) – INT 22, *Foreign currency transactions and advance consideration*

At initial application, the Group has chosen to continue to apply the hedge accounting requirements of HKAS 39, *Financial instruments: recognition and measurement*, instead of requirements in Chapter 6 of HKFRS 9 to all hedging relationships. Thus the Group also applies HK(IFRIC) – INT 16, *Hedges of a net investment in a foreign operation*, without amendments which conform that interpretation to the requirements in Chapter 6 of HKFRS 9.

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, but did not have any material impact on the Group's results and financial position. Upon the adoption of HKFRS 9, the Group has applied retrospectively to items that existed at 1 January 2018 and the comparative information are not required to be restated in accordance with the transitional provisions of HKFRS 9. Any transition adjustments has been recognised against the opening balances of equity at 1 January 2018.

The Group has been impacted by HKFRS 15 in relation to the timing of revenue recognition, gross versus net recognition of revenue and presentation of contract assets and contract liabilities. The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11, *Construction contracts*, and HKAS 18, *Revenue*. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(a) Overview (continued)**

The impacts on the Group's financial position at 1 January 2018 upon initial application of HKFRS 15 are as follows:

HK\$ million	At 31 December 2017	Impact on initial application of HKFRS 15	At 1 January 2018
Deferred tax assets	84	8	92
Inventories	6,891	(691)	6,200
Debtors and other current assets	8,148	706	8,854
Creditors and other current liabilities	(8,442)	(43)	(8,485)
Other non-current liabilities	(338)	(21)	(359)
Other reserves	(8,610)	41	(8,569)

The adoption of other revised standards did not have any material impact on the Group's results and financial position.

Further details of the changes in accounting policies are set out in Note 2(b) for HKFRS 15 and Note 2(c) for HKFRS 9.

(b) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, which covers revenue arising from the sales of goods and rendering of services, and HKAS 11, which specifies the accounting for construction contracts.

The following table summarises the impact of transition to HKFRS 15 on retained profits and the related tax impact at 1 January 2018:

	HK\$ million
Retained profits	
Deferred revenue from warranty service identified as separate performance obligations	(50)
Revenue recognition for sales of goods in service contracts identified as separate performance obligations	1
Related tax impact of the above	8
Net decrease in retained profits at 1 January 2018	(41)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(b) HKFRS 15, Revenue from contracts with customers (continued)**

The following tables summarise the impacts of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 30 June 2018 and the consolidated statement of profit or loss for the six months then ended for each of the line items affected.

Impact on the consolidated statement of financial position:

30 June 2018 HK\$ million	As reported	Adjustments	Amounts without adoption of HKFRS 15
Deferred tax assets	111	(7)	104
Inventories	6,570	574	7,144
Debtors and other current assets	8,178	(569)	7,609
Current tax payable	(162)	(2)	(164)
Creditors and other current liabilities	(8,479)	37	(8,442)
Other non-current liabilities	(117)	13	(104)
Other reserves	(8,541)	(46)	(8,587)

Impact on the consolidated statement of profit or loss:

For the six months ended 30 June 2018 HK\$ million	As reported	Adjustments	Amounts without adoption of HKFRS 15
Revenue	24,474	1,165	25,639
Cost of sales	(21,042)	(1,159)	(22,201)
Income tax	(184)	(1)	(185)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(b) HKFRS 15, Revenue from contracts with customers (continued)**

The details of the changes in significant accounting policies in relation to the Group's various goods and services are set out below:

(i) Timing of revenue recognition

The adoption of HKFRS 15 does not have a significant impact on the Group's revenue recognition policy, except for the following:

1. Sales of motor vehicles and motor yachts

Under HKFRS 15, customers obtain control of motor vehicles and motor yachts when registration document is issued and either (i) full payments have been made or (ii) the goods have been delivered to and accepted by the customers. Revenue is recognised at that point in time when the customer obtains the control of the goods.

Under HKAS 18, 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 risks and rewards of ownership have been passed to the customers.

Revenue recognised under HKFRS 15 is at a later time than that under HKAS 18, which is taken to be the point in time at which the control of the motor vehicles and motor yachts has been passed to the customers. There is no adjustment on the opening balance of the retained profits as all the sale contracts of motor vehicles and motor yachts have been completed before 1 January 2018.

2. Provision of warranty in addition to factory warranty

Upon the sales of certain motor vehicles, the Group provides warranty services in addition to the factory warranty. These warranty services should be distinct as a separate performance obligation among the elements embedded in motor vehicles sales contract. The Group allocates the transaction prices to the products and the services under HKFRS 15. Revenue arising from such warranty service is recognised when the performance obligation has been fulfilled.

Revenue is recognised later under HKFRS 15 than under HKAS 18. The related deferred revenue on these warranty services in prior years is HK\$42 million (net of tax) and such amount has been debited to the retained profits at 1 January 2018.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(ii) **Gross versus net recognition of revenue**

Under HKAS 18, an entity recognises revenue on a gross basis if it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Under HKFRS 15, an entity recognises revenue on a gross basis only if it controls the specified good or service before that good or service is transferred to a customer. Based on the terms of certain agreements entered into between the vendors and the Group, the Group determined that it does not obtain control of goods before the goods are sold to end customers. As such, the Group has changed the basis of presentation of revenue for certain transactions in the agency business in Consumer Products Business Segment from a gross basis to a net basis.

As a result of the change, revenue is recognised on the net commission or service fee received after deducting the consideration payable to the principals/other parties in exchange for the products and other direct costs. Direct costs of HK\$1,120 million related to these transactions have been net off with the revenue for the six months ended 30 June 2018. The products held at 30 June 2018, amounting to HK\$624 million, have been reclassified from "Inventories" to "Assets held on behalf of principals" under "Debtors and other current assets".

(iii) **Presentation of contract assets and liabilities**

Under HKFRS 15, if the Group delivers goods or renders services to a customer before being unconditionally entitled to the consideration for the promised goods and services in the contract, the entitlement to consideration is classified as a contract asset rather than a receivable.

The Group has assessed the expected credit losses of contract assets in accordance with HKFRS 9 on the same basis as financial assets.

Contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. Such balance is recognised as contract liability rather than a payable.

For a single contract with the customer, the contract asset or contract liability is presented on a net basis. For multiple contracts, only contract assets and contract liabilities of related contracts are presented on a net basis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(b) HKFRS 15, *Revenue from contracts with customers* (continued)****(iii) Presentation of contract assets and liabilities (continued)**

As a result of the new presentation, the Group has made the following reclassification at 30 June 2018:

- “Gross amounts due from customers for contract work” and “Trade debtors and bills receivables” amounting to HK\$10 million and HK\$69 million respectively, which were previously included in “Debtors and other current assets” are now being grouped as “Contract assets” under “Debtors and other current assets”.
- “Gross amounts due to customers for contract work” amounting to HK\$6 million are now disclosed as “Contract liabilities” which are also under “Creditors and other current liabilities”.

(c) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The impacts related to the classification and measurement and the credit losses measurement are summarised as follows:

(i) Classification and measurement of financial assets and financial liabilities

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset’s contractual cash flow characteristics and the entity’s business model for managing the financial asset.

Apart from the reclassification of trade and other receivables to contract assets as a result of initial application of HKFRS 15 (see note 2 (b)(iii)), the Group’s dated debt securities which were previously disclosed as “held-to-maturity debt securities” under HKAS 39 are now disclosed as “financial assets at amortised cost” under HKFRS 9.

All other financial assets continue to be measured on the same basis as are measured under HKAS 39.

The measurement categories for all financial liabilities remain the same. The Group did not designate or de-designate any financial asset or financial liability at fair value through profit or loss at 1 January 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) HKFRS 9, *Financial instruments* (continued)****(ii) Credit losses of financial assets**

HKFRS 9 replaces the “incurred loss” impairment model in HKAS 39 with a forward-looking “expected credit loss” model.

The Group applies the simplified approach and records lifetime expected credit losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade debtors. Furthermore, the Group applies the general approach and records twelve-month expected credit losses that are estimated based on the possible default events on its other receivables and contract assets within the next twelve months, unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses. The Group assessed that there was no significant financial impact upon the initial adoption of the standard.

3. 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 service outlets, original equipment parts trading, used car trading, provision of after-sales services, motor leasing, sales of yachts, hire purchase and insurance agency, 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

3. SEGMENT REPORTING (CONTINUED)**(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 appliances products; (iii) trading and distribution of consumer and healthcare products; and (iv) provision of a wide range of integrated professional logistics and supply chain management solutions and cold chain management services. The "Other Markets" geographical segment mainly covers business operations in Thailand, Malaysia, Japan, 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 arisen 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, which are presented as reconciliation items in Note 3(b).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

3. SEGMENT REPORTING (CONTINUED)

(a) Segment results

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

HK\$ million Unaudited Six months ended 30 June 2018	Motor Business					Consumer Products Business					Inter-segment elimination	Total
	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Other Businesses			
	2,892	14,628	650	18,170	3,501	1,751	1,028	6,280	24			
Revenue from external customers	3	-	-	3	2	1	-	3	46	-	24,474	
Inter-segment revenue										(52)	-	
Segment revenue	2,895	14,628	650	18,173	3,503	1,752	1,028	6,283	70	(52)	24,474	
Segment result from operations (Note)	235	482	54	771	172	(179)	4	(3)	24	-	792	
Share of profit/(loss) after tax of associates	-	5	-	5	-	4	-	4	(1)	-	8	
Share of profit after tax of joint ventures	-	5	-	5	-	-	-	-	2	-	7	
Segment profit/(loss) before taxation (Note)	235	492	54	781	172	(175)	4	1	25	-	807	
Segment income tax (Note)	(40)	(120)	(17)	(177)	(26)	(10)	(9)	(45)	(5)	-	(227)	
Segment profit/(loss) after taxation (Note)	195	372	37	604	146	(185)	(5)	(44)	20	-	580	

HK\$ million Unaudited Six months ended 30 June 2017	Motor Business					Consumer Products Business					Inter-segment elimination	Total
	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Other Businesses			
	2,649	11,770	919	15,338	4,306	2,244	1,444	7,994	20			
Revenue from external customers	3	-	-	3	-	-	-	-	47	-	23,352	
Inter-segment revenue										(50)	-	
Segment revenue	2,652	11,770	919	15,341	4,306	2,244	1,444	7,994	67	(50)	23,352	
Segment result from operations (Note)	168	278	70	516	156	(40)	22	138	26	-	680	
Share of profit after tax of associates	-	4	-	4	-	7	-	7	-	-	11	
Share of profit after tax of joint ventures	-	9	-	9	-	-	-	-	3	-	12	
Segment profit/(loss) before taxation (Note)	168	291	70	529	156	(33)	22	145	29	-	703	
Segment income tax (Note)	(35)	(92)	(15)	(142)	(22)	-	(12)	(34)	(6)	-	(182)	
Segment profit/(loss) after taxation (Note)	133	199	55	387	134	(33)	10	111	23	-	521	

Note: The handling and service charge income and commission income have been classified under "Revenue" as referred to in Note 4. Segment results are before corporate expenses and recharges and the corresponding tax impacts. Comparative figures presented above have been adjusted to conform to current period's presentation.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

3. SEGMENT REPORTING (CONTINUED)

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

HK\$ million	Note	Unaudited Six months ended 30 June	
		2018	2017
Segment profit after taxation		580	521
Net gain on remeasurement of investment properties	10	3	1
Net gain on remeasurement of foreign currency forward contracts	4	2	1
Net loss on remeasurement of other financial assets	4	(2)	–
Net provision of impairment loss on intangible assets	5(b),12	–	(20)
Share-based payments	5(b)	–	3
Amortisation and depreciation of fair value adjustments on assets arising from business combinations		(40)	(39)
Unallocated corporate expenses		(244)	(220)
Reconciliation items before taxation		(281)	(274)
Tax impact:			
Net tax effect on the above reconciliation items		43	31
Reconciliation items net of taxation		(238)	(243)
Profit for the period		342	278

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

4. OTHER NET INCOME

HK\$ million	Unaudited Six months ended 30 June	
	2018	2017
Advertising and other subsidies from suppliers	53	61
Net gain on disposal of property, plant and equipment	18	1
Compensation income	12	2
Handling and service charge income	9	4
Government subsidies	5	4
Interest income from bank deposits	4	6
Net gain on disposal of subsidiaries	2	12
Forfeited deposit from customers	2	2
Net gain on remeasurement of investment properties	3	1
Net gain on remeasurement of foreign currency forward contracts	2	1
Net loss on remeasurement of other financial assets	(2)	–
Net exchange loss	(6)	(1)
Others	35	30
Total	137	123

Note: As the Group has expanded the businesses of hire purchase and insurance agency, the handling and service charge income and commission income generated from these businesses are classified under "Revenue". Comparative figures of such income totaling HK\$308 million have been reclassified to "Revenue" to conform to current period's presentation.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

5. PROFIT BEFORE TAXATION

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

HK\$ million	Unaudited Six months ended 30 June	
	2018	2017
(a) Finance costs		
Interest on bank advances and other borrowings	105	96
Other interest expense	2	–
Total	107	96
(b) Other items		
Amortisation		
– lease prepayments	12	7
– intangible assets	46	35
Depreciation	277	232
Write-down of inventories	71	76
Reversal of write-down of inventories	(30)	(63)
Share-based payments	–	(3)
Net provision of impairment losses on		
– intangible assets	–	20
– debtors and other current assets	45	2

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

6. INCOME TAX

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the period. Taxation outside Hong Kong is calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

HK\$ million	Unaudited Six months ended 30 June	
	2018	2017
<i>Current tax</i>		
– Hong Kong Profits Tax	54	43
– Outside Hong Kong	158	252
	212	295
<i>Deferred tax</i>		
– Origination and reversal of temporary differences	(26)	(164)
– Net recognition of deferred tax assets on tax losses	(12)	–
	(38)	(164)
<i>Withholding tax</i>	10	20
Total	184	151

7. DIVIDENDS

- (a) Dividends payable to equity shareholders of the Company attributable to the interim period

HK\$ million	Unaudited Six months ended 30 June	
	2018	2017
Interim dividend declared after the interim period of 5.05 HK cents (2017: 5.05 HK cents) per share	94	93

The interim dividend declared after the end of the reporting period has not been recognised as a liability at 30 June 2017 and 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

7. DIVIDENDS (CONTINUED)

- (b) Dividends payable/paid to equity shareholders of the Company attributable to the previous financial year and approved during the interim period

HK\$ million	Unaudited Six months ended 30 June	
	2018	2017
Final dividend approved and payable of 11.90 HK cents (2017 paid: 3.69 HK cents) per share	220	68

8. EARNINGS PER SHARE

- (a) Basic earnings per share

The basic earnings per share for the six months ended 30 June 2018 is based on the profit attributable to shareholders of the Company of HK\$275 million (2017: HK\$232 million) and the weighted average number of 1,847,038,804 (2017: 1,832,133,000) ordinary shares in issue during the period.

- (b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2017 and 2018 are the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

9. PROPERTY, PLANT AND EQUIPMENT

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Opening net book value	3,784	3,318
Exchange adjustments	(26)	191
Additions	498	711
Business combination	–	311
Amortisation capitalised in construction in progress (Note 11)	2	2
Transfer to investment properties	–	(4)
Transfer to inventories	(7)	(10)
Transfer to assets held for sale	(18)	–
Disposal of subsidiaries	–	(5)
Disposals and written-off	(87)	(222)
Depreciation	(277)	(487)
Impairment loss	–	(21)
Closing net book value	3,869	3,784

10. INVESTMENT PROPERTIES

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Opening net book value	229	215
Exchange adjustments	1	10
Net gain on remeasurement	3	7
Transfer from property, plant and equipment	–	6
Disposals	–	(9)
Closing net book value	233	229

Note: The valuations of investment properties carried at fair value were revalued at 30 June 2018 by the Group's independent valuers using the same valuation techniques as were used by these valuers when carrying out the December 2017 valuations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

11. LEASE PREPAYMENTS

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Opening net book value	858	499
Exchange adjustments	(5)	42
Additions	4	–
Business combination	–	336
Amortisation	(12)	(17)
Amortisation capitalised in construction in progress (Note 9)	(2)	(2)
Closing net book value	843	858

12. INTANGIBLE ASSETS

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Opening net book value	1,880	1,154
Exchange and other adjustments	(12)	38
Business combination	–	828
Additions	2	–
Amortisation	(46)	(77)
Disposal of a subsidiary	–	(43)
Impairment loss	–	(20)
Closing net book value	1,824	1,880

13. GOODWILL

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Opening net book value	2,760	2,403
Exchange and other adjustments	(3)	19
Business combination	–	338
Closing net book value	2,757	2,760

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

14. OTHER NON-CURRENT ASSETS

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Finance lease receivables	352	437
Prepaid long-term assets	385	362
Other financial assets	59	64
Trade debtors	1	7
Total	797	870

15. INVENTORIES

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Finished goods	6,445	6,822
Raw materials	112	55
Work-in-progress	13	14
Total	6,570	6,891

16. ASSETS HELD FOR SALE

In April 2018, the Group entered into a sale and purchase agreement with a third party to sell a property situated in Singapore with a carrying amount of SG\$1.4 million (equivalent to approximately HK\$8 million). The disposal is expected to be completed in 2018.

In May 2018, the Group entered into a provisional agreement with a third party to sell a wholly-owned subsidiary incorporated in Hong Kong with net asset value of HK\$10 million at a consideration of HK\$421 million. The disposal is expected to be completed in October 2018.

The remaining balance of HK\$4 million (31 December 2017: HK\$4 million) represents carrying amounts of certain interests in joint ventures that are in the process of being transferred to the joint venture partner.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

17. DEBTORS AND OTHER CURRENT ASSETS

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Trade debtors and bills receivable	3,869	4,566
Less: Provision for impairment of trade debtors	(38)	(64)
	3,831	4,502
Other receivables, deposits and prepayments	3,044	3,087
Finance lease receivables	819	869
Assets held on behalf of principals	675	77
Contract assets	79	–
Gross amount due from customers for contract work	–	6
Amounts due from an intermediate holding company	–	1
Amounts due from fellow subsidiaries	–	1
Amounts due from associates	6	6
Amounts due from joint ventures	4	12
Amounts due from holders of non-controlling interests	53	16
Derivative financial instruments	20	15
	8,531	8,592
Less: Non-current finance lease receivables	(352)	(437)
Non-current trade debtors	(1)	(7)
Total	8,178	8,148

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	Unaudited 30 June 2018	Audited 31 December 2017
Within 3 months	3,264	3,992
More than 3 months but within 1 year	420	361
Over 1 year	147	149
Total	3,831	4,502

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

Reportable segments

Motor Business

Consumer Products Business

Credit terms in general

Cash on delivery to 90 days

Cash on delivery to 105 days

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

18. BORROWINGS

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Bank loans	6,875	6,712
Bank overdrafts	87	56
Other loans	111	159
Total	7,073	6,927

Certain assets of the Group are pledged to secure loans and banking facilities granted to certain subsidiaries and are as follows:

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Inventories	112	170
Bank deposits	81	69
Debtors and other current assets	71	65
Lease prepayments	41	41
Property, plant and equipment	26	27
Total	331	372

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

19. CREDITORS AND OTHER CURRENT LIABILITIES

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Trade creditors and bills payable	3,484	3,705
Other payables and accrued charges	4,180	4,248
Contract liabilities	6	–
Gross amount due to customers for contract work	–	5
Amounts due to associates	59	16
Amounts due to joint ventures	4	3
Amounts due to holders of non-controlling interests	258	232
Forward liabilities	230	–
Put option written on non-controlling interests	202	172
Provision for product rectification	54	57
Derivative financial instruments	2	4
Total	8,479	8,442

The ageing analysis of trade creditors and bills payable based on due dates is as follows:

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Current or within 1 month	3,268	3,389
More than 1 month but within 3 months	131	191
More than 3 months but within 6 months	37	53
Over 6 months	48	72
Total	3,484	3,705

20. OTHER NON-CURRENT LIABILITIES

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Forward liabilities	–	230
Loans from holders of non-controlling interests	100	73
Deferred revenue	13	–
Put options written on non-controlling interests	4	35
Total	117	338

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

21. CAPITAL AND RESERVES**(a) Share capital**

	Unaudited 30 June 2018		Audited 31 December 2017	
	Number of shares (in million)	HK\$ million	Number of shares (in million)	HK\$ million
Ordinary shares, issued and fully paid:				
At 1 January/30 June/ 31 December	1,847	1,535	1,847	1,535

(b) General reserve

During the six months ended 30 June 2018, the general reserve was credited by HK\$1 million for the fair value adjustment of put options written on non-controlling interests.

During the six months ended 30 June 2017, general reserve of HK\$64 million was transferred to retained profits upon payment of a dividend from a subsidiary in Japan.

22. CAPITAL COMMITMENTS

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

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Contracted for		
– Capital expenditure	162	192
– Investment in an associate	227	268
Authorised but not contracted for		
– Capital expenditure	188	214

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS**(a) Financial instruments 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 significant input is based on unobservable market data.

30 June 2018 (Unaudited)

HK\$ million

	Level 2	Level 3
Assets		
Other financial assets	–	56
Derivative financial instruments	21	–
Liabilities		
Put options written on non-controlling interests	–	(206)
Derivative financial instruments	(2)	–
Forward liabilities	–	(230)

31 December 2017 (Audited)

HK\$ million

	Level 2	Level 3
Assets		
Other financial assets	–	61
Derivative financial instruments	15	–
Liabilities		
Put options written on non-controlling interests	–	(207)
Derivative financial instruments	(4)	–
Forward liabilities	–	(230)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**(a) Financial instruments carried at fair value (continued)****Fair value hierarchy (continued)**

During the six months ended 30 June 2018 and year ended 31 December 2017, 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.

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 six months period ended
30 June 2018 (Unaudited)**

HK\$ million	Other financial assets	Put options written on non- controlling interests	Forward liabilities
At 1 January 2018	61	(207)	(230)
Exchange adjustments	(3)	–	2
Fair value adjustment credited to reserves	–	1	–
Fair value adjustment charged to profit or loss	(2)	–	(2)
At 30 June 2018	56	(206)	(230)

For the year ended 31 December 2017 (Audited)

HK\$ million	Other financial assets	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)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) 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 rate swaps, cross currency swaps, put options written on non-controlling interests and forward liabilities. All financial instruments are carried at amounts not materially different from their fair values at 31 December 2017 and 30 June 2018.

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 counterparties.

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

For Gilman Group, the fair value measurement of the put option was referenced to the amount of adjusted profit for the years 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 4.4% to 7.2% per annum (31 December 2017: 0.7% to 7.2% per annum). The fair value measurement is positively correlated to the sales growth rates.

The fair value of other financial assets 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 9.2% at 30 June 2018 (31 December 2017: 6.6%). The fair value measurement is negatively correlated to the discount rate.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

24. CONTINGENT LIABILITIES

- (a) At the end of the reporting period, the Group has issued guarantees to banks in respect of banking facilities of HK\$59 million (31 December 2017: HK\$59 million) granted to and utilised by an associate of HK\$31 million (31 December 2017: HK\$34 million).
- (b) The Group has issued a guarantee of EUR1.2 million at 30 June 2018 and 31 December 2017 to a trade creditor of an associate.

25. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Recurring transactions

HK\$ million	Unaudited Six months ended 30 June	
	2018	2017
Sales to fellow subsidiaries	14	–
Purchases from associates	(198)	(157)
Rental expenses to fellow subsidiaries	(109)	(107)

(b) Operating lease commitments with fellow subsidiaries

At the end of the reporting period, the Group's total future minimum lease payments on properties under non-cancellable operating leases with subsidiaries of CITIC Group Corporation which are payable as follows:

HK\$ million	Unaudited 30 June 2018	Audited 31 December 2017
Within 1 year	255	88
After 1 year but within 5 years	478	–
Total	733	88

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

25. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)**(c) Transactions with state-owned enterprises**

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

These transactions were 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.

26. COMPARATIVE FIGURES

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

27. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. However, the Group has not early adopted them in preparing this interim financial report.

The Group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements:

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

27. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018 (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 lessees 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 property, 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. At 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK\$3,151 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.

28. HOLDING COMPANIES

At 30 June 2018, the directors considered the ultimate holding company of the Group to be CITIC Group Corporation, a wholly state-owned company established in the People's Republic of China. The intermediate holding company of the Group, CITIC Limited, which is incorporated and listed in Hong Kong, produces financial statements available for public use.

REVIEW REPORT



Review report to the board of directors of Dah Chong Hong Holdings Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 28 to 62 which comprises the consolidated statement of financial position of Dah Chong Hong Holdings Limited as of 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
27 August 2018

STATUTORY DISCLOSURE

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The board of directors of the Company (the "Board") has declared an interim dividend of 5.05 HK cents per share (2017: 5.05 HK cents) for the year ending 31 December 2018 to shareholders whose names appear on the Register of Members of the Company on Friday, 14 September 2018. The interim dividend will be payable in cash, with an option granted to shareholders to receive the interim 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 (the "Scrip Dividend Scheme") are subject to their listing being granted by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 Friday, 21 September 2018. It is expected that the dividend warrants and certificates for the scrip shares will be despatched to shareholders on Thursday, 25 October 2018.

The Register of Members of the Company will be closed from Wednesday, 12 September 2018 to Friday, 14 September 2018, both days inclusive, during which period no share transfer will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with the Company's Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 11 September 2018.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme (the "Scheme") on 28 September 2007. Under the Scheme, the Board may offer to grant an option over the Company's shares to any person employed by the Company or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of the Company or any of its subsidiaries as the Board may, in its absolute discretion, select. A consideration of HK\$1.00 is payable by each grantee to the Company on acceptance of the offer of the option. The subscription price determined by the Board will not be less than the higher of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange 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 five business days immediately preceding the date of grant. The maximum number of shares over which 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.

Since the adoption of the Scheme, 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

STATUTORY DISCLOSURE (CONTINUED)

The share options granted on 7 July 2010 and 8 June 2012 had expired by the close of business on 6 July 2015 and 7 June 2017 respectively.

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 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.

During the six months ended 30 June 2018, 950,000 share options lapsed and 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 six months ended 30 June 2018 is as follows:

(a) Directors

Name of Director	Date of Grant	Exercise period	Exercise price per share	Number of share options						Approximate percentage to the number of issued shares
				Balance as at 1.1.2018	Granted during the six months ended 30.6.2018	Reclassification	Lapsed/ cancelled during the six months ended 30.6.2018	Exercised during the six months ended 30.6.2018	Balance as at 30.6.2018	
			HK\$							
Lau Sei Keung	30.4.2014	30.4.2015 – 29.4.2019	4.93	1,450,000	-	(1,450,000) ^(note 2)	-	-	N/A	N/A
Lee Tak Wah	30.4.2014	30.4.2015 – 29.4.2019	4.93	900,000	-	-	-	-	900,000	0.049%

(b) Employees of the Group working under continuous contracts (as defined in the Employment Ordinance), other than directors of the Company

Date of Grant	Exercise period	Exercise price per share	Number of share options						Approximate percentage to the number of issued shares	
			Balance as at 1.1.2018	Granted during the six months ended 30.6.2018	Reclassification	Lapsed/ cancelled during the six months ended 30.6.2018	Exercised during the six months ended 30.6.2018	Balance as at 30.6.2018		
			HK\$							
30.4.2014	30.4.2015 – 29.4.2019	4.93	9,350,000 ^(note 3)	-	(550,000) ^(note 4)	(950,000)	-	-	7,850,000	0.425%

STATUTORY DISCLOSURE (CONTINUED)

(c) Others (Note 1)

		Number of share options							
Date of Grant	Exercise period	Exercise price per share	Balance as at 1.1.2018	Granted during the six months ended 30.6.2018	Reclassification	Lapsed/ cancelled during the six months ended 30.6.2018	Exercised during the six months ended 30.6.2018	Balance as at 30.6.2018	Approximate percentage to the number of issued shares
		HK\$							
30.4.2014	30.4.2015 – 29.4.2019	4.93	11,250,000 ^(note 3)	–	2,000,000 ^(notes 2 & 4)	–	–	13,250,000	0.717%

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 Lau Sei Keung as an executive Director of the Company on 1 April 2018, 1,450,000 share options (granted on 30 April 2014) were reclassified from “Directors” to “Others”.
- 3 1,600,000 share options (granted on 30 April 2014) were reclassified to the opening balance of “Others”, subsequent to certain employees having retired on 1 January 2018.
- 4 550,000 share options (granted on 30 April 2014) were reclassified to “Others” subsequent to certain employees having retired during the six months ended 30 June 2018.

STATUTORY DISCLOSURE (CONTINUED)

DIRECTORS' INTERESTS IN SECURITIES

The interests of the directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as at 30 June 2018 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	Approximate percentage to the number of issued shares
	Personal interests	
Lai Ni Hium	707,191	0.038%
Lee Tak Wah	100,000	0.005%
Fung Kit Yi, Kitty	685,000	0.037%

2. Shares in Associated Corporations

(a) CITIC Limited

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

(c) China CITIC Bank Corporation Limited

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

STATUTORY DISCLOSURE (CONTINUED)

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 preceding section of "Share Option Scheme".

4. Shares Options in Associated Corporations

CITIC Telecom International Holdings Limited

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Balance as at 1.1.2018	Number of share options			Balance as at 30.6.2018	Approximate percentage to the number of issued shares
					Granted during the 6 months ended 30.6.2018	Lapsed/ cancelled during the 6 months ended 30.6.2018	Exercised during the 6 months ended 30.6.2018		
Fei Yiping	24.3.2017	24.3.2018 - 23.3.2023	2.45	500,000	-	-	-	500,000	0.028%
	24.3.2017	24.3.2019 - 23.3.2024	2.45	500,000	-	-	-	500,000	
				1,000,000				1,000,000	

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

5. Debentures in Associated Corporations

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 Limited which was matured on 23 January 2018.

Save as disclosed above, as at 30 June 2018, none of the directors of the Company had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which 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 (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

STATUTORY DISCLOSURE (CONTINUED)

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the interests of the substantial shareholders, other than the directors of the Company or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	Number of shares of the Company	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 Limited 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 Limited was deemed to be interested in 1,040,740,191 shares through its direct wholly-owned subsidiary, CITIC Pacific Limited.

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 Limited.

STATUTORY DISCLOSURE (CONTINUED)

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2018.

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to promote investor confidence and protect the interest of our shareholders. Looking ahead, we will keep our corporate governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments. Details of our corporate governance practices can be found in the Annual Report 2017 and on the Company's website at www.dch.com.hk.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules on the Stock Exchange throughout the six months ended 30 June 2018.

REVIEW OF INTERIM REPORT

The Audit Committee of the Board, consisting of five independent non-executive directors, has reviewed the Interim Report 2018 with the management, internal and external auditors and recommended its adoption by the Board.

The interim financial report is prepared in accordance with HKAS 34, *Interim Financial Reporting*. It has been reviewed by the Company's independent auditor KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

UPDATE ON DIRECTORS' INFORMATION

No disclosure is made pursuant to Rule 13.51B(1) of the Listing Rules.

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
Total capital employed	Shareholders' funds plus total debt
Segment revenue	Revenue from external customers plus inter-segment revenue
Operating profit	Segment result from operations (before taxation and non-controlling interests)

RATIOS

Basic earnings per share	= $\frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares (by days) in issue during the period}}$
Diluted earnings per share	= $\frac{\text{Profit attributable to shareholders}}{\text{Weighted average number of shares (diluted)}}$
Net asset value per share	= $\frac{\text{Net assets}}{\text{Number of shares in issue at the end of the period}}$
Net gearing ratio	= $\frac{\text{Net debt}}{\text{Total capital}}$
Operating margin	= $\frac{\text{Operating profit}}{\text{Segment revenue}}$

CORPORATE INFORMATION

Headquarters and Registered Office

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

Website

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

Stock Codes

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

Share Registrar

Shareholders should contact our Share Registrar on matters such as transfer of shares, change of name or address, or loss of share certificates:

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: 2980 1333
Fax: 2810 8185

Investor Relations

Investors, shareholders and research analysts may contact the Investor Relations Department.
Telephone: 2768 3110
Fax: 2758 1117
Email: ir@ir.dch.com.hk

Financial Calendar

Closure of Register: 12 September 2018 to
14 September 2018
Interim Dividend payable: 25 October 2018

Interim Report 2018

Our Interim 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 Interim 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: 2758 1117 or by email: contact@dch.com.hk.



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