ANNUAL REPORT 2018

大昌行集團有限公司

DAH CHONG HONG HOLDINGS LIMITED

Stock Code: 01828

Bringing Quality to Life

At Dah Chong Hong, we distribute thousands of products from all over the world as part of our diverse motor and consumer products businesses. We sell the cars that make your heart race and keep your family safe, food that nourishes and brings people together. We offer the household brands you trust and the care when you need it most.

For 70 years, we've been a part of the fabric of Hong Kong and today our operations extend across 12 Asian economies. We've built a company of 17,000 employees by always putting our customers first, offering quality, value and reliability.

At DCH, we bring brands to market and products to shelves across a wide range of industries. But most importantly, we bring quality to life.

Design Story

Our business connects people with the products they love and use every day. This year, our Annual Report design creates a mosaic of life's little moments to highlight how DCH impacts customers across Asia and how our commitment to quality and service contributes to the richness of daily life.

Contents

SUMMARY OF THE YEAR

GROUP OVERVIEW

Revenue
$50,878
HK$ million

Profit attributable to shareholders
$820
HK$ million

Basic earnings per share
44.10
HK cents

Total dividend per share
17.43
HK cents

MOTOR BUSINESS

1,000,000+
Vehicles serviced annually

20+
Motor brands

100,000+
New vehicles sold annually

100+
Showrooms and 4S shops

CONSUMER PRODUCTS BUSINESS

1,000+
Brands distributed

75,000+
Points of sales served

60+
Food and electronics shops

40+
Logistics centres

OUR PEOPLE

Employees
17,596

Management by gender

82% Male

18% Female

Workforce by gender

58% Male

42% Female

OUR LOCATIONS

12
Asian economies

Training and development

48,000+
Participants

120,000+
Training hours

Workforce by geography

65%	26%	9%
11,484	4,515	1,597
Mainland China	Hong Kong and Macao	Other locations

COMMUNITY INITIATIVES

1,100+
Volunteers

40+
Events

12,000+
Service hours

RECOGNITIONS

HKIoD

ASIAN EXCELLENCE AWARD 2018

hkira IR Awards 2018

15 years+ caringcompany 商界展關懷

Social Capital Builder 社會資本動力獎

FINANCIAL HIGHLIGHTS

For the year (HK$ million)	2018	2017
Revenue Note (i)	50,878	51,238
Profit from operations	1,542	1,450
Profit attributable to shareholders	820	802
Segment profit / (loss) after taxation Note (ii)		
Motor Business	1,105	1,178
Consumer Products Business	(2)	104
Other Businesses	436	45

At year end (HK$ million)	2018	2017
Total debt	6,971	6,927
Cash and bank deposits	1,093	1,138
Net debt	5,878	5,789
Shareholders' funds	10,282	10,145
Total capital	16,160	15,934
Capital employed	17,253	17,072
Net gearing ratio	36.4%	36.3%

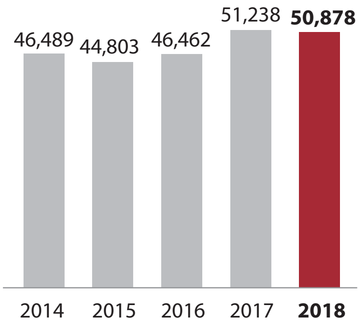
For the year (HK cents)	2018	2017
Earnings per share	44.10	43.71
Dividend per share		
Interim	5.05	5.05
Final	12.38	11.90
Total	17.43	16.95

Notes:

(i) The handling and service charge income and commission income have been classified under "Revenue" and the comparative figures have been adjusted to conform to current year's presentation (see Note 3 to the financial statements).

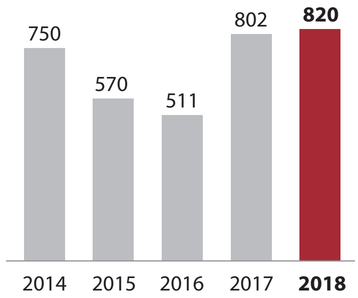
(ii) For the year ended 31 December 2018, net provision of impairment losses on property, plant and equipment is included under segment results and the comparative figure has been adjusted to conform to current year's presentation (see Note 4(c) to the financial statements).

Revenue
(HK$ million)



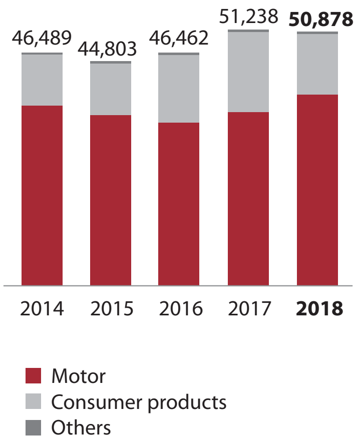
2018 vs. 2017 -0.7%

Profit attributable to shareholders
(HK$ million)

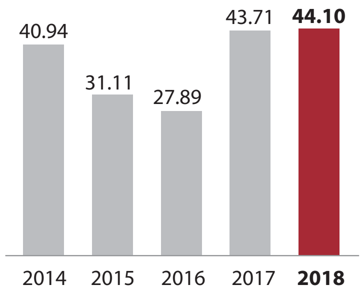


2018 vs. 2017 +2.2%

Revenue by business segment
(HK$ million)

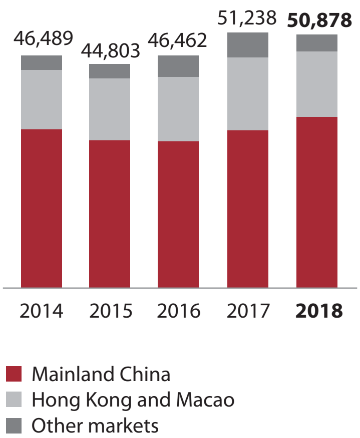


Basic earnings per share
(HK$ cents)

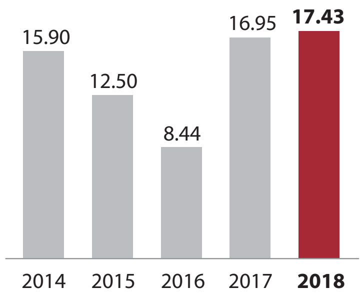


2018 vs. 2017 +0.9%

Revenue by geography
(HK$ million)



Total dividend per share
(HK$ cents)



2018 vs. 2017 +2.8%

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

It has become a commonplace observation in recent years that the world and our operating environments have been changing faster than ever before. In 2018, this trend persisted with increasingly unpredictable geopolitics, sometimes turbulent markets, and trade tensions that have escalated above any peak in recent memory. Uncertainty has been, and continues to be, the name of the game.

Against this backdrop, DCH has been responding systematically to the growing disruption and structural changes that have upended many of the long-held ways of doing business in the sectors and markets where we operate. We continued our ongoing transformation and refreshed both managerial and operational norms. Nevertheless, 2018 was a challenging year amidst an overall softening of the Chinese economy and headwinds gathering pace over the second half.

Our focus remains on increasing our resilience, and as our business continues to evolve, positioning DCH for sector leadership that will last for generations to come.

OPERATING RESULTS

Profit attributable to ordinary shareholders for 2018 was HK$820 million, representing a 2% increase over 2017. Our board has recommended a final dividend of 12.38 HK cents per share to shareholders, giving a total dividend of 17.43 HK cents per share for the year 2018 up from 16.95 HK cents in 2017.

While the bottom line grew slightly, supported by gains on the disposal of assets, our operating results decreased against 2017 due mainly to a widened loss in our mainland China food and FMCG business. I will address this later.

The motor segment registered a profit of HK$1,105 million, the largest contributor to our overall profit but 6% lower compared with 2017. The reduction in profit was due to the increased margin pressure that further accelerated in the second half of 2018, as the mainland Chinese automotive market experienced its first contraction in decades. In addition, profit was also affected by costs associated with new 4S shop openings as we continued working to grow this business in mainland China through new brands and services, particularly in the premium segment.

"Our focus remains on increasing our resilience, and as our business continues to evolve, positioning DCH for sector leadership that will last for generations to come."

Meanwhile, in the more mature Hong Kong market, performance was stable, resulting mainly from the rebound of passenger vehicle sales and the contribution of our aviation and yacht businesses.

The consumer products segment recorded a loss of HK$2 million, dragged down by the loss incurred in the mainland China business, while performance in Hong Kong was buoyed by the increased margin in food trading as well as cost savings from our facilities consolidation.

The continued loss incurred in our mainland food and FMCG operation is inexcusable. So we have had to confront a fundamental question: Do (or can) we have the expertise and capacity to succeed?

Clearly, the issues run deeper than we had anticipated. We need to accelerate the evolution of our business model. E-commerce has upended traditional distribution, and the pace of change is increasing. To stay relevant, we must explore new channels and expand our partnerships with leaders in this space. That is a structural shift we have to continue addressing. Our immediate priority has been leadership. So a new management team for this business was installed at the end of 2018. We also engaged a leading consultancy to put in place a roadmap to reorder every level of the operation and reshape team workflows.

Our business foundation is solid, and we have brand relationships and the wider resources of CITIC. The goal I have set for this management team in 2019 is this: Stop the bleeding. I look forward to the results that this group will drive as we bring the operation toward its potential.

CORPORATE DEVELOPMENTS

The cornerstone of DCH's commitment since our founding 70 years ago was to think always from the customer's perspective. We deliver the products customers want through the channels most relevant to their current preferences. This has always been the core of our offer to brand partners from around the world. But success with this model demands constant evolution. That is why we work tirelessly to build relevance into everything, from our distribution infrastructure to consumer offerings and channels. In each of these areas, we realised critical gains in 2018.

Consolidating distribution operations

Our ongoing work to integrate systems and infrastructure across markets in the consumer products business is approaching a turning point. Much of the consolidation initiated since the acquisition of LF Asia has been completed, and costs are going down as new efficiencies emerge.

In healthcare, we have completed the development of our two cold-chain storage facilities in Hong Kong and Thailand. Already, these state-of-the-art distribution centres are shortening delivery cycles, enabling better tracking, expanding service options for our principals, and positioning DCH to gain market share as a healthcare distribution leader in Asia.

In logistics, our Hengqin distribution centre in the city of Zhuhai, a critical link in our Greater Bay Area supply chain network, is completed and expected to begin operation in 2019, preparing DCH to realise future gains as commercial flows strengthen across Guangdong, Hong Kong, and Macau. Meanwhile, warehouse consolidation continued in mainland China, which resulted in a utilisation rate improvement of nearly 20%. These completions are essential to the long-term defensiveness of our business and form the backbone of our distribution growth strategies. I look forward to the enhanced service offering, lower costs and expanded capacity they will add to our Greater China operations.

Expanding our consumer offering

Throughout the past year, we continued to expand our consumer offering by adding new product lines and protecting category margins. I would like to highlight a few promising initiatives.

We are increasing development of house brands and products. As of this writing, we have over 50 house brands developed and in-market, supported by a large and growing pipeline. The aim is to build a portfolio of brands such as our already-successful Cheer line, which in 2018 built on the popularity of its core range of fresh dairy, eggs and premium nuts to launch new products including drinking yogurts and organic cereals.

In food processing, DCH leverages its in-house R&D capabilities to create products that appeal to changing and increasingly health-conscious consumers. For example, the company has developed recipes specially tailored for its different retail partners and supplies semi-finished food products to many well-known restaurants.

In the motor business, we have been working to expand our portfolio within the electrical vehicle and domestic brand categories. Critically, we signed an agreement in 2018 for the authorisation of six 4S shops with Lynk & Co., a relatively young and millennial-targeted domestic Chinese brand. We expect this range to add an exciting new dimension to our portfolio. As premium vehicles continue to become more accessible throughout mainland China, we are also increasing our exposure to this higher-margin segment through the expansion of our dealership coverage in the Southern and Eastern China markets.

Deepening customer connectivity

Our capacity to understand and connect with consumers is how we create long-term value not only for our brand partners, but for customers themselves. This requires a serious and sustained focus. Today, that also means being comfortable with going beyond the traditional parameters of a physical distributor. New projects have begun, and while it is early days we are already seeing results as we work to enhance the customer journey for the digital age.

In mainland China, we are partnering with Tencent to digitise 4S shop services. Delivered through channels such as WeChat mini programs, our new service suite enables users to access real-time customer service through their mobile phones, reserve test drives, receive vehicle quotes and, ultimately, make purchases. Once rolled out, these services will be further supported by targeted marketing unlocked by Tencent technologies. Longer-term, our collaboration will expand to redefine the vehicle maintenance model as we work to seamlessly integrate physical after-sales services with online interactions.

In Hong Kong, we have launched successful channel expansions. UsedCarMart.hk, a C2C auto trading platform has facilitated worry-free transactions for consumers who prefer direct digital interaction. Similarly, Parts+ is a mobile app that enables digital ordering, tracking and communication for our independent garage buyers. Both are promising O2O innovations that add immediate value, while opening up future possibilities for smarter customer insights and individualised lifecycle management.

Right now, these initiatives still represent only incremental achievements. What makes them important is that they originated organically through the local teams closest to customers. They demonstrate our capacity to think beyond the traditional model of a dealer and distributor. As digitalisation continues to accelerate throughout the consumer industry, it is primarily through creative experimentation that we will stay relevant. I am optimistic about the differentiated offerings and stronger relationships we can build by applying this type of ground-up innovation across the DCH platform.

THE PATH AHEAD

Despite working within a trading environment defined by deepening conditions of uncertainty and complexity, we are increasingly better-positioned to capture growth throughout Asia, aligned with the continued expansion of the middle class, as well as increasing regional trade flows and commercial integration. Our attainable business opportunity is large and still growing. And as we evolve into new ways of working and creating value for our customers, I am increasingly confident in our capability to implement tough decisions, weather change and grow despite the storms that surely lie ahead.

We stand on the precipice of a new phase in our business as a dynamic and consumer-centric platform, one that will contribute lasting value for you, our shareholders, as well as for our principals, partners, customers and employees.

Thank you for continuing to share this journey with us.

Zhang Jijing
Chairman
Hong Kong, 26 February 2019




BUSINESS REVIEW

"Our motor business is poised for growth and our consumer products business is steadily capturing new opportunities."

BUSINESS REVIEW

In 2018, Dah Chong Hong Holdings Limited ("DCH" or "the Group") delivered stable results despite economic headwinds in the second half of the year due to the solid performances of core businesses with the exception of the restructuring mainland China food and fast moving consumer goods ("FMCG") business.

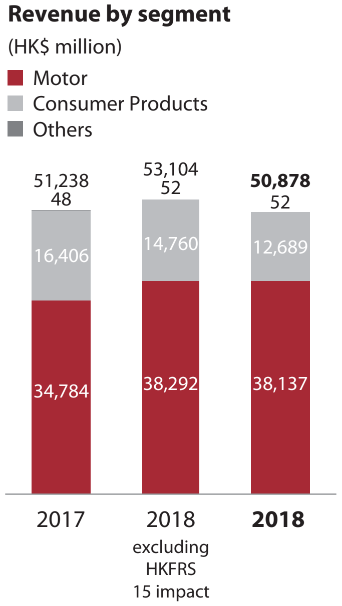
Overall, Group revenue[1] was steady with a slight decrease of 0.7% at HK$50,878 million (2017: HK$51,238 million) after the impact of new accounting standard, HKFRS 15. On a like-for-like basis, revenue increased by 3.6%. Gains in the motor business, driven by 4S shop expansion in mainland China, resulted in a 9.6% increase in the overall motor segment while portfolio optimisation and restructuring in the consumer products segment reduced revenue by 10.0% on a like-for-like basis and by 22.7% after the impact of HKFRS 15.

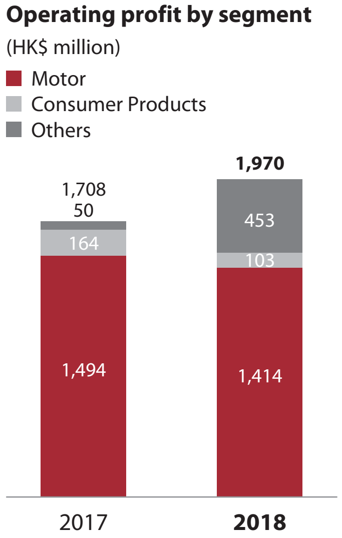
Profit attributable to shareholders increased by 2.2% at HK$820 million (2017: HK$802 million). Excluding the impact of HKFRS 15 and HKFRS 9, profit attributable to shareholders increased by 6.7%. In the motor segment, operating profit[2] decreased by 5.4% to HK$1,414 million (2017: HK$1,494 million) as we expanded our 4S shop network and made adjustments to pricing and sales strategies to adapt to a rapid shift in consumer demand and changing government policies in mainland China. In the consumer products segment, operating profit fell by 37.2% to HK$103 million (2017: HK$164 million) due to ongoing business reengineering in the mainland China food and FMCG business and restructuring in Southeast Asia. Conversely, operating profit increased in the food and FMCG business of Hong Kong, healthcare distribution, electrical products distribution and logistics. Total operating profit was HK$1,970 million (2017: HK$1,708 million) after a sale of noncore assets in Hong Kong.

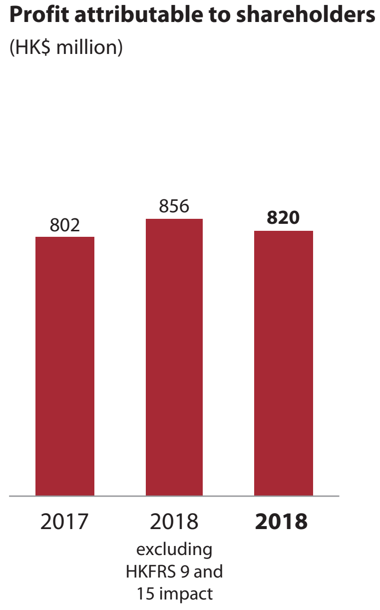
1 Revenue refers to revenue from external customers as disclosed in Note 4(a) to the financial statements.

2 Operating profit / (loss) refers to segment result from operations before sharing of non-controlling interests, as disclosed in Note 4(a) to the financial statements.

In 2019, the motor business will continue to expand in the premium, commercial and domestic vehicle segments with 12 new 4S shops in the pipeline for a network total of 100 4S shops. At the same time, we are investing in our motor related business to open new growth opportunities. In partnership with Tencent, we are developing digital 4S shop capabilities and have launched innovative business model adaptations including a peer-to-peer used car platform in Hong Kong, digital ordering systems in the parts trading business and car sharing applications in motor leasing.







In the consumer products segment, we are integrating supply chains, implementing new systems and optimising our product and channel mix. While wide-ranging reforms in the mainland China food and FMCG business will continue in 2019, we have completed a thorough review of our business model and are implementing a targeted enhancement program to improve performance. In Hong Kong, our food and FMCG business has completed consolidation for enhanced efficiency and will continue to differentiate our product offerings while strengthening our portfolio of over 50 in-house brands. The restructuring in Southeast Asia is on track for completion in 2019 and will enable us to better focus on high potential growth areas. The performance of the healthcare business is promising, with gains in Hong Kong, Singapore and Malaysia, as we position DCH Auriga to be a regional distribution leader and leverage synergies within the wider CITIC network. Likewise, increased sales of lifestyle electrical products in mainland China, continual growth in e-commerce revenue and the expansion of the appliance installation business for property projects demonstrate how DCH has supplemented our core businesses with new channels for expansion.

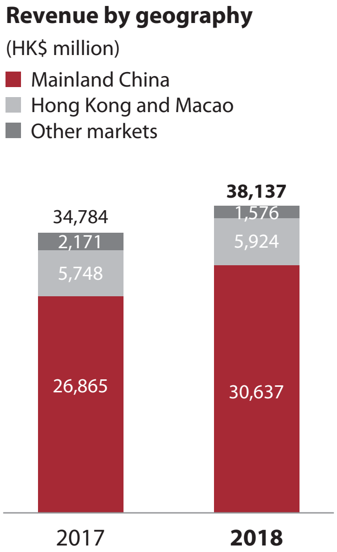
Looking forward, we anticipate that economic factors may impact our industries in the coming year as falling consumer sentiment, Sino-US trade tensions and changing government policies continue to generate a volatile business environment. However, we have successfully completed a wide range of business enhancement and innovation initiatives in alignment with our long term strategic objectives. Our motor business is poised for growth and our consumer products business is steadily capturing new opportunities. We are prepared for a challenging 2019 with a reinvigorated culture and a defined strategy to strengthen our position as a motor and distribution leader in Greater China and across Asia.

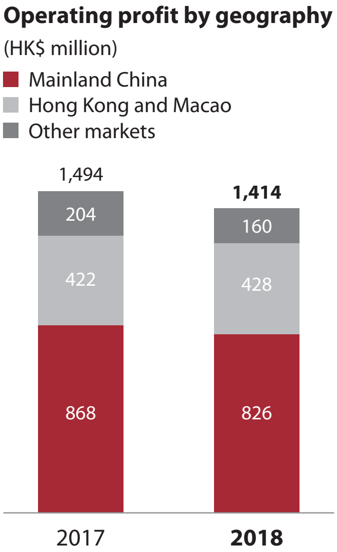
MOTOR BUSINESS

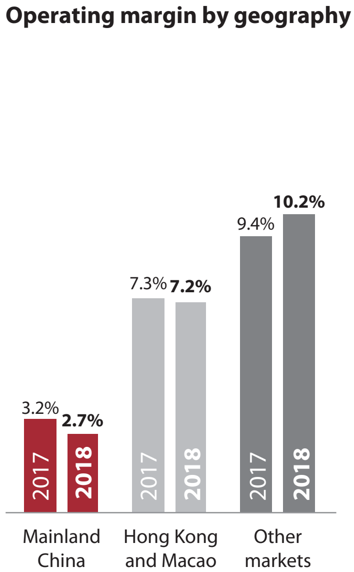
As a dealer and distributor of motor vehicles, DCH represents more than 20 renowned automotive brands with a presence in mainland China, Hong Kong, Macao, Singapore, Taiwan and Myanmar. Leveraging decades of industry expertise, the motor business offers supporting services including independent service outlets, vehicle parts trading, used car sales, motor leasing, auto finance and insurance, engineering projects, aviation support operations and the sales of luxury yachts.

Revenue generated by the motor business segment in 2018 was HK$38,137 million, an increase of 9.6% (2017: HK$34,784 million). The mainland China motor business grew by 14.0% to HK$30,637 million (2017: HK$26,865 million) while the Hong Kong and Macao motor business increased by 3.1% to HK$5,924 million (2017: HK$5,748 million). Growth in mainland China was driven by 4S shop expansion, enhanced front line capabilities and increased exposure to the premium vehicle market, while in Hong Kong, passenger vehicle sales improved against 2017 when the market was impacted by the expiration of a subsidy for electric vehicles.

Operating profit decreased by 5.4% to HK$1,414 million (2017: HK$1,494 million) during our business expansion phase in mainland China, further impacted by pricing pressure and strategy adjustments following the changes in government policies and a supply delay in Euro VI compliant commercial vehicles in Singapore.







Mainland China

DCH is one of the leading automotive dealers and distributors in mainland China with 88 4S shops and 29 authorised showrooms, retailing a diverse portfolio of motor brands with a network that spans 13 provinces and municipalities. In recognition of our scale and market achievements, we were recently listed in the top ten of the Top 100 Chinese Auto Dealer Groups by the China Automobile Dealers Association. Supplementing our dealership business in mainland China, we offer motor services including leasing, financing, parts sales, auto insurance and used car sales.

In the first half of 2018, the mainland China motor industry enjoyed a favourable sales environment and the motor business delivered increased revenue and operating profit. Conversely, macroeconomic factors and government policies, including the announcement of tariff changes in early 2018, Sino-US trade tensions, a crackdown on peer-to-peer lending and declines in the equity market, weakened new vehicle demand in the second half of the year. China's GDP growth slowed and the automotive market contracted for the first time in decades, recording a 2.8% year-on-year decrease in unit sales according to the China Association of Automobile Manufacturers.

However, following the success of our business enhancement program, DCH has initiated an accelerated business expansion strategy to increase our exposure to the premium segment and market penetration in Eastern and Southwest China. In 2018, we successfully expanded our network to a total of 88 4S shops in operation, up from 80 at the end of 2017, including new dealerships in the premium, mid-market and commercial vehicle segments. As a result of network expansion, increased exposure to the premium segment and enhanced marketing and sales effectiveness, DCH delivered an 8.8% year-on-year increase in unit sales despite the contraction of the market at a total of 112,226 units (2017: 103,181 units). Revenue increased by 14.0% to HK$30,637 million (2017: HK$26,865 million).

	DCH unit sales in mainland China			Mainland China market unit sales (000s)		
	2018	2017	Change	**2018**	2017	Change
Passenger cars	**107,915**	98,763	9.3%	**23,710**	24,718	–4.1%
Commercial vehicles	**4,311**	4,418	–2.4%	**4,371**	4,161	5.0%
Total	**112,226**	103,181	8.8%	**28,081**	28,879	–2.8%

During our expansion phase, operating profit for the mainland China motor business totaled HK$826 million (2017: HK$868 million) a 4.8% decrease against an exceptional 2017 performance due partly to acquisition costs. Profitability was further impacted by government policies, particularly changes in import tariffs, and the rapid shift in consumer demand which necessitated adjustments to production, sales and pricing strategies across the industry. Segment margin remains at a 2.7% (2017: 3.2%) reflecting the operational fitness of our existing business despite the challenging market environment as we bring our new shops into full operation and prepare the business for significant growth in the longer term.

In addition to the new 4S shops opened in 2017 and 2018, DCH has garnered authorisations for a total of 12 new 4S shops with six in the premium segment for Audi, Bentley and Mercedes-Benz. To supplement our premium import brand portfolio, we have partnered with the innovative domestic brand, Lynk & Co., receiving authorisations for six new dealerships. In December 2018, our first Lynk & Co. showroom was opened in Chaozhou.

Aftersales service revenue, which represents 10.1% of total 4S shop revenue, increased by 14.4% with a 6.2% increase in vehicles serviced to 1,160,919 units. Revenue generated from motor financing and insurance grew by 18.4% while the auto financing portfolio increased by 13.3% to RMB819 million as DCH continued to promote value-added services alongside vehicle sales.

In 2018, revenue from the motor leasing business increased by 40.8% as DCH expanded city coverage to 33 cities and is on track to become one of the largest rental companies in mainland China, specialising in the corporate fleet segment. To sharpen and differentiate our service offering, we are exploring innovative car sharing systems and expansion opportunities in recreational vehicle leasing.

In the used car business, the recent easement of relocation restrictions on previously-owned vehicles resulted in a 68% increase in commissions and we leverage expertise developed in Hong Kong to prepare for potential growth in the used car market.

DCH has also acquired an importer’s license and will expand parallel importation services, following beneficial policy revisions including the removal of time limits on bonded storage in free trade zones. Furthermore, the Group is reviewing opportunities to expand our commercial vehicle network, building on decades of expertise and best practices developed in the Hong Kong market.

Recognising that customer service is fundamental to our continued success, DCH is focused on strengthening our interactions with individual consumers and creating a seamless online to offline ("O2O") experience. We have launched a new customer relationship management ("CRM") system to build loyalty by connecting interactions along the car ownership journey. In partnership with Tencent, DCH is developing digital 4S shop services including smart delivery, electronic reservation and personalised test drives. We will also utilise advanced digital sales and marketing tools to create an individual and immersive vehicle ownership experience.

In 2019, we anticipate China's automotive market will face continued economic uncertainty and industry restructuring. However, our long-term strategy for expansion has positioned DCH to continue to outpace the market. Rising incomes, consumption upgrades and tariff reductions are expected to drive long term market growth, particularly for premium and imported vehicles. As such, we have refined our operational footprint and laid the foundations to benefit from the ongoing evolution of the automotive industry. DCH will continue to implement a targeted network expansion strategy while enhancing customer service, sales and marketing capabilities. In the spirit of continual improvement, we are in the process of defining a second phase of long term development initiatives to strengthen our business and prepare for tomorrow's opportunities.

Hong Kong and Macao

In Hong Kong and Macao, DCH is the dealer and distributor of 16 vehicle brands with supporting motor related businesses including motor leasing, used car trading, independent service outlets, parts trading, aviation support services, engineering projects and the distribution of luxury yachts.

In 2018, Hong Kong's automotive market recorded a decrease of 5.8% in vehicle sales to 49,542 units, reflecting decreased demand against 2017 when passenger car sales increased 8.1% due to electric vehicle incentives. However, powered by strong model launches in key brands, sales funnel management and an enhanced buying experience, DCH passenger car sales outpaced the market, resulting in an 11.4% increase to 7,787 units. This growth offset a 20.6% decrease in DCH commercial vehicle unit sales despite market share gains as demand for commercial trucks slowed following the expiry of the second phase of the Hong Kong government's emission reduction program.




BUSINESS REVIEW (CONTINUED)

	DCH unit sales in Hong Kong and Macao			Hong Kong market unit sales		
	2018	2017	Change	**2018**	2017	Change
Passenger cars	**7,787**	6,993	11.4%	**34,596**	37,298	–7.2%
Commercial vehicles	**3,665**	4,613	–20.6%	**14,946**	15,292	–2.3%
Total	**11,452**	11,606	–1.3%	**49,542**	52,590	–5.8%

Revenue of the Hong Kong and Macao motor business accordingly increased by 3.1% to HK$5,924 million (2017: HK$5,748 million) and operating profit was steady with an increase of 1.4% to HK$428 million (2017: HK$422 million) supported by gains in the aviation support services and Princess Yachts businesses.

In 2018, the commercial vehicle business focused on retaining market share, innovation and service leadership as replacement demand in our core market segments tapered in the final stages of the current emission reduction program. In the first half of the year, DCH successfully won a bid to supply 34 street-sweeping trucks to the Hong Kong Government's Food and Environmental Hygiene Department, the first domestic Euro VI truck purchase made by a Hong Kong government agency. In addition, DCH was selected as the sole provider of double decker cross-border shuttle buses and recovery tow trucks for the Hong Kong-Zhuhai-Macao Bridge, demonstrating our continued leadership in the commercial vehicle market.

The motor related businesses delivered a strong performance with growth in the aviation support services business. In 2018, DCH was selected as the sole operator to supply, manage and maintain zero-emissions ground service equipment at the Hong Kong International Airport Midfield Concourse with an initial ten year contract. As part of the agreement, DCH will provide repair and maintenance services for over 10,000 ground support vehicles. The pooled, zero-emission fleet is the first of its kind in Asia and will serve as a model for ground service efficiency enhancement.

DCH also provides comprehensive sales, bespoke and aftersales services in Greater China for the renowned British luxury yacht manufacturer, Princess. During the year, revenue increased significantly with the delivery of a record 14 craft following years of successful brand, service and reputation building across the region. In 2018, we opened a new showroom located in the Central District of Hong Kong to enhance customer convenience and expanded marketing efforts in mainland China with participation in motor craft shows in Shanghai and Shenzhen.

In 2018, the Hong Kong and Macao motor business focused on enhancing profitability and market share by improving customer satisfaction. The implementation of a new CRM system will serve as a central hub to incorporate sales, marketing and customer service processes, facilitating each unique customer journey. With more targeted promotional, marketing and service capabilities, DCH is better positioned to deliver a differentiating experience, boost sales and drive loyalty.

We also introduced initiatives to enhance connectivity with O2O services. In September 2018, DCH launched a new online trading platform for used cars, "UsedCarMart.hk". The digital marketplace builds on existing operations and credibility in the motor industry to create a convenient and worry-free way to buy and sell used cars. The platform will offer customers a wide range of value-added services to help used car owners value their vehicles and align with prospective buyers, as well as tools to assess vehicle quality and ensure payment transfers.

In our parts trading business, we have created an innovative mobile application called "PARTS+" for our business customers. The application provides a platform for maintenance service providers to find and order replacement parts, offering a seamless customer experience with real time communication, push notifications, order tracking and online tutorials.

DCH is well positioned as a market leader in Hong Kong and Macao with diversified motor businesses and a strong portfolio of passenger and commercial vehicle brands. While the market faces potential impact from economic factors and government programs, we anticipate that our performance will remain stable as we focus our efforts on service, digitalisation and driving synergies across our operations.

Other Markets

The other markets motor business segment comprises commercial vehicles sales and services in Singapore and Taiwan, with business expansion opportunities in Myanmar.

In 2018, revenue decreased by 27.4% to HK$1,576 million (2017: HK$2,171 million) and operating profit decreased by 21.6% to HK$160 million (2017: HK$204 million) due to the delay of Euro VI vehicle supply in Singapore, which offset growth in the Taiwan commercial vehicle business.

In Singapore, DCH is the sole distributor and authorised dealer of Isuzu Motors and offers vehicle leasing, parts trading and aftersales services. In 2018, Singapore adopted Euro VI emission standards for diesel vehicles but a supply delay of Euro VI compliant commercial vehicles affected sales in the first months. While deliveries began in the second quarter, we were unable to fully recover from the impact to revenue and profit for the year. Market demand was further softened by the completion of the Singapore Government's early retirement program for commercial vehicles.

DCH is also the sole distributor and authorised dealer of Isuzu Motors in Taiwan, providing sales and aftersales service with a semi-knocked down assembly facility. In 2018, the Taiwan motor business reported a 13.3% increase in commercial vehicle unit sales to 2,853 units (2017: 2,519 units) and an increase in profitability as we received authorisation to assemble two additional models at our local semi-knocked down facility, reducing costs and shortening lead times. DCH unit sales were further strengthened by new initiatives to better serve corporate fleets as the business focused on customer satisfaction and relationship management.

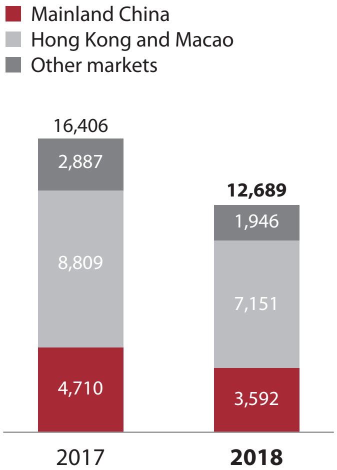
Looking ahead, while we anticipate that a challenging global market environment may impact sales, we are confident that our product and service offering will remain competitive. We will continue to work closely with our principals to maintain market share while exploring opportunities for expansion in each of our individual markets.

CONSUMER PRODUCTS BUSINESS

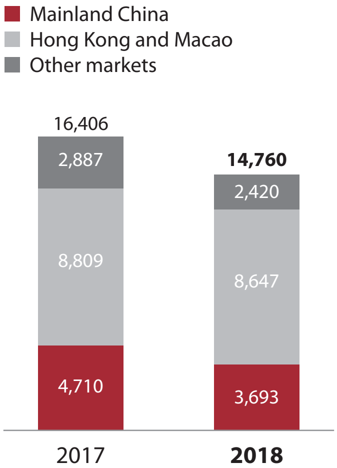
DCH is a leading distributor of consumer products across Greater China and Southeast Asia. Distributing over 1,000 brands and 20,000 products, ranging from food and FMCG to healthcare and electrical products, our business extends across brand development, manufacturing, commodity trading, agency distribution, logistics, retail and aftersales with operations in Hong Kong, Macao, Taiwan, mainland China, Japan, Singapore, Thailand, Malaysia, Indonesia, the Philippines and Brunei.

Revenue generated by the consumer products segment in 2018 was HK$12,689 million (2017: HK$16,406 million) representing a decrease of 22.7% after the implementation of HKFRS 15. On a like-for-like basis, revenue decreased by 10.0% mainly due to portfolio optimisation in the mainland China food and FMCG business and market restructuring in the mainland China healthcare businesses. Operating profit was HK$103 million (2017: HK$164 million), a decrease of 37.2% as a result of continuing business reengineering in the mainland China food and FMCG business and restructuring in Southeast Asia. On the contrary, operating profit in the food and FMCG business of Hong Kong, healthcare distribution, electrical products distribution and the logistics businesses improved against 2017.

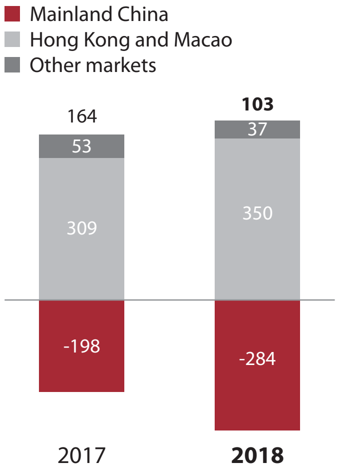
Revenue by geography
(HK$ million)



Revenue by geography
(excluding HKFRS15)
(HK$ million)



Operating profit by geography
(HK$ million)



Food and FMCG

In the food and FMCG business, which accounts for 72.3% of the consumer products segment business by revenue, DCH operations extend across the supply chain to include brand development, food manufacturing, food commodity trading, agency distribution and retail operations.

Mainland China

In mainland China, DCH operates a consumer products distribution and trading network that covers more than 30 major cities and regions, including Beijing, Shanghai, Guangzhou, Tianjin, Wuhan and Chengdu.

In 2018, the overall operating environment was challenging as China's economy slowed with Sino-US trade tensions and falling consumer sentiment further impeding the Group's trading businesses. Likewise, rapidly changing consumer shopping preferences affected product performance and margins as pricing transparency from e-commerce and online grocery put pressure on traditional business models.

The food and FMCG business in mainland China recorded a revenue decrease of 13.8% with widened operating losses during ongoing operational transformation. In partnership with an external consultant, we completed a thorough review of our operations and have defined a comprehensive strategy to succeed in the rapidly evolving market. Internally, we have restructured the business with the appointment of a new management team, centralised regional offices and streamlined administrative functions. We have implemented prudent promotion and inventory controls with a revised performance management system and clear performance targets.

In 2019, we will continue to improve performance and carefully monitor our operations to ensure we remain on a path of business recovery, with the structure, portfolio and processes we need to compete successfully in the mainland China consumer market.

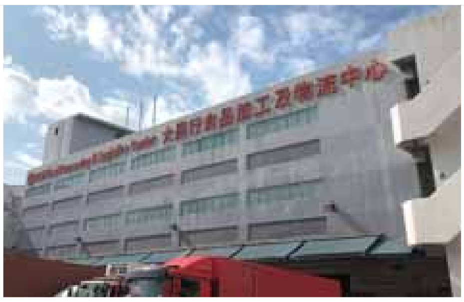
Hong Kong and Macao

Revenue generated in the Hong Kong and Macao food and FMCG business decreased by 12.0% after the adoption of HKFRS 15 but was stable on a like-for-like basis with a slight decrease of 0.9%. Operating profit increased by 7.2% due to the strong performance of the food trading business and a sales recovery in food processing following the opening of consolidated operations in Yuen Long.

During the year, the Sino-US trade tensions and the softening macro economy negatively impacted consumer confidence while pricing pressure from parallel trading and rising import costs directly affected the food trading and distribution industry. To maintain profitability, DCH continued efforts to upgrade product and channel portfolios while improving cost and service structures.

Food distribution

In our food and FMCG agency distribution business, we offer localised marketing and supply chain services to a diversified range of market-leading household brands such as Pocari Sweat, Oreo, Hershey's, Ovaltine and Nivea. The integration of the acquired and rebranded Integrated Marketing Services Asia ("IMSA") business is complete, creating synergies and solidifying DCH as the leading agency food and FMCG distributor in Hong Kong and Macao. In 2018, we focused on the optimisation of brand, product and channel portfolios to offset continued pressure from parallel imports and intense pricing competition. Looking forward, the Group will continue to rationalise its product and channel portfolios while exploring opportunities for further channel expansion, including cross-border and online sales.


Food trading

Our food trading business sources and distributes meat, seafood, produce and groceries for foodservice, wholesale and retail. Revenue and operating profit increased despite aggressive pricing strategies adopted by competitors and fluctuating commodity pricing as the business focused on the development of specialty products and increasing penetration in high-end channels. Recognising a shift in the preferences of our caterers and consumers, DCH is widening our portfolio to include products that are natural, sustainable, "free-from" and organic. We are also expanding our retail product range with convenient serving sizes and simple home cooking solutions.

Brands

DCH has developed more than 50 in-house and licensed brands of food and household products including Cheer, Valley Chef, Daisy, Speedtox, Master Butcher, Golden Spot and Golden Trophy. With a diverse range of products from dairy and cereal to premium seafood, our in-house brands represent an exciting growth area and an avenue to leverage extensive distribution, marketing and market building capabilities. In 2018, a dedicated team was formed to accelerate DCH brand development and has begun reviewing our brand catalogue for product extension, repackaging and market expansion opportunities. We will assess opportunities to replicate the success of our Cheer brand, which has become a household name in Hong Kong and successfully launched new product ranges including drinking yogurts and cereals in 2018.

Food processing

As part of our effort to build synergies across our operations, the consolidation of our meat and seafood processing operations in Hong Kong was completed in early 2018 with production lines relocated to ISO 22000 and HACCP certified facilities in Yuen Long. Our businesses have resumed normal operations and delivered an increase in operating profit despite challenges from imports and an evolving processed foods industry. To maintain strong profitability and market share, we are reviewing our product portfolio, packaging and recipes to better serve the changing tastes of consumers, particularly with natural or "free-from" products and delivered early R&D successes with unique recipes developed for some of Hong Kong's leading caterers and restaurants. To build market share, we will continue to differentiate our product range, enhance product traceability and introduce digital ordering platforms.

Food retail

DCH operates 52 Food Mart and Food Mart Deluxe stores which offer specialty meat and seafood products alongside home cooking requirements. Over the past two years, we have optimised our store portfolio and delivered improved performance with same-store revenue growth that outpaced the market in 2018. This year, DCH continued a wide range of enhancement measures including interior renovation, the introduction of mobile payment systems, new loyalty and redemption programs and a widened product range of premium fruits and specialty items. As a result of our efforts to improve the overall shopping experience, food retail proudly received the "2018 Service Retailer of the Year" award in the supermarket sector by the Hong Kong Retail Management Association. In 2019, we will continue to enhance the brand image, store environments, product ranges and operational efficiency. We have also identified further areas for expansion after a review of the market and are actively seeking targeted growth opportunities to build operational scale, including the exploration of an O2O model in partnership with an e-commerce leader.

With the consolidation of the IMSA business complete and supply chain synergies generating new efficiencies, the outlook for the Hong Kong and Macao food and FMCG business remains positive despite the highly competitive retail environment. In 2019, DCH will continue to develop own brand opportunities, maintain market share through the continued expansion of retail and wholesale channels and develop our product portfolio with a focus on premium, natural and healthy products.

Other markets

In Southeast Asia, DCH's food and FMCG business distributes food, personal care and household goods with a geographic footprint that extends across Singapore, Taiwan, Thailand, Malaysia, Indonesia, Brunei, Japan 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.

In 2018, we focused on streamlining the Southeast Asia business to enhance profitability, identifying competitive advantages and positioning our operations to benefit from growth opportunities. As a result of restructuring in East Malaysia and Singapore, revenue decreased by 34.6% and the business recorded operating losses. However, restructuring has entered its final stages as scheduled and the rationalised Southeast Asian business portfolio is anticipated to improve management focus and profitability for the future.

In our contract manufacturing operations, both revenue and operating profit increased following business expansion. In 2019, we will continue to review opportunities to grow our portfolio in higher value and private label products while closely monitoring operational costs, productivity, quality and yield improvements to protect profitability.

In 2019, DCH will focus on building market share in key markets of Southeast Asia. Operationally, we will promote internal efficiency while leveraging regional and local expertise to attract new principals and capture growth opportunities across the region.

Healthcare distribution

DCH's healthcare distribution business, DCH Auriga, offers comprehensive supply chain solutions with operations across Greater China and Southeast Asia. Product coverage includes pharmaceuticals, over-the-counter medicines, medical devices, personal care, nutrition and hospital consumables.

Revenue for the healthcare distribution business decreased by 15.0% on a like-for-like basis as growth in Hong Kong, Singapore and Malaysia offset a decline in the mainland China market where government purchasing and public health policies have shifted to favour the development of a domestic healthcare industry. After the application of HKFRS 15, revenue decreased by 52.1%. Despite the reduction in recorded revenue, cost structuring and growth in key markets resulted in an increase of 19.6% in operating profit.

Business realignment efforts in mainland China are completed and we have pivoted our strategy to focus on the nutrition and over-the-counter categories, engaging support from the wider CITIC network to drive synergy. We are reviewing an opportunity to distribute Nature's Care after investment from the Tamar Alliance Fund, jointly owned by CITIC Pacific Limited and DCH, and working with Lifestyles to introduce sexual wellness products in five Asian markets, following investment by CITIC Capital Holdings Limited. In Hong Kong, we are beginning the distribution of new products including post-surgical consumables and incontinence products.

During the year, we completed new flagship distribution facilities in Thailand and Hong Kong to strengthen our distribution footprint, upgrade capabilities and increase warehouse and delivery flexibility. In Thailand, the new distribution centre is located by the Bangkok airport to provide an optimal location for in-bound healthcare shipments, facilitating a faster turnaround for just-in-time and emergency delivery. In Hong Kong, DCH Auriga is moving into a stand-alone, healthcare-dedicated distribution centre complete with state-of-the-art equipment including robotic shelving, radio frequency identification enhanced warehousing and specialty cold chain services. The infrastructure investments have generated significant interest from principals and further position DCH Auriga to grow into a healthcare distribution leader across the region.

Commencing 2017, DCH Auriga initiated a three-year program to upgrade management information systems and digitise the supply chain across 12 distribution centres in Asia. New warehouse management software will drive seamless connectivity by providing advanced control and tracking capabilities. Accordingly, DCH Auriga was awarded by JDA Software Group for the "Best Implementation in Asia" as the roll out of the new system increased speed, traceability and visibility without impacting daily operations. We anticipate the successful supply chain digitisation will help us move to a paperless operation, improve productivity and provide greater transparency to management and customers.

Looking forward, DCH Auriga will focus on building market share with new infrastructure and regionalised capacities while exploring key growth areas including the development of private label products and technology-driven services.

Electrical products distribution

With operations across Hong Kong, Macao, mainland China and Southeast Asia, DCH distributes, retails and provides aftersales services for a wide range of multinational brands of electrical, audio-visual, lifestyle products and home appliances under the Gilman Group, ToolBox, DCHdigi and DCHAV brands.

Revenue for the electrical products business increased by 1.5% and operating profit increased by 20.0% reflecting growth in lifestyle electronics and strong home appliance sales, particularly in laundry and air conditioners, which offset a decrease in appliance installation for property projects. The Waste Electrical and Electronic Equipment Recycling Programme in Hong Kong, which requires manufacturers and distributors to be responsible for disposal fees, impacted short term demand for household appliances but did not have a significant impact on profitability as consumers adjusted to new price levels.

DCH is currently reviewing its retail network and has identified opportunities for expansion on and offline. In mainland China, the success of our DCHdigi business has been largely driven by e-commerce sales across multiple platforms and the Gilman business has expanded online distribution with a double-digit increase in e-commerce revenue. In September of 2018, we opened a new experiential lifestyle retail concept, iD Shop at Pacific Place in Admiralty, Hong Kong. The shop provides a curated range of premium electronic products, including TVs, cameras, watches, and audio products, with an emphasis on personalised customer service. In the Gilman business, we are also evaluating Southeast Asian market expansion, building on the success of our lifestyle and proprietary brands.

In 2018, we initiated several measures to enhance customer service. We improved service tracking, call center performance and repair lead times while opening new digital channels for customer communication. As a result, we have been recognised with industry awards including "The Best Audio Distributor" in the E-brand awards from Hong Kong Economic Times, "The PC3 Platinum Brand Award" from Audio Magazine and the "Top Ten Equipment" Award from 21hifi.com.

ToolBox also moved into the DCH headquarters in November 2018 to drive synergy and strengthen our aftersales service offering. In addition to servicing products distributed by Gilman and DCH, ToolBox widened its service coverage with new contracts to provide comprehensive aftersales services for third party brands. In recognition of its achievements, ToolBox was awarded in 2018 for "Outstanding Consumer Experience" by our strategic partner, the Electrolux Group.

In 2019, DCH will continue to expand the home appliance and electronics distribution business, particularly in premium lifestyle products. We will enhance our purchase and aftersales experience to maintain best-in-class customer service. Additionally, we are working closely with the wider CITIC network to leverage our extensive distribution portfolio in property development and retail projects across Greater China.

Logistics

The logistics solutions business operates distribution centres and in-house fleets, providing comprehensive supply chain solutions to both internal and external customers including transportation, cold-chain, warehousing and value-added services across Greater China.

In 2018, DCH Logistics implemented a wide range of integration initiatives with a rationalised portfolio of customers and consolidated operations. Despite a revenue decrease of 12.7% as we focused efforts on higher value business streams, operational profit was steady with an increase of 2.4% reflecting efforts to upgrade facilities, improve utilisation rates and control management costs.

Our focus for the year was to drive synergy through consolidation, particularly in the supply chains of both the food and FMCG business and electrical products business. Consolidation efforts have resulted in enhanced warehouse and delivery efficiency with increased utilisation rates and cost reductions. Integration is largely completed in Hong Kong, while storage optimisation and synergy development continues in mainland China.

In addition to enhancing efficiency, DCH Logistics is exploring opportunities to expand our distribution footprint. In 2019, the opening of the new 45,000 square meter distribution centre in Hengqin will position DCH to meet demand for premium supply chain services in Macao and across the Greater Bay Area. We are also reviewing new strategic locations in Southern and Eastern China, alongside the potential relocation of existing hubs for better accessibility and utilisation. Despite ongoing economic uncertainty, we anticipate portfolio adjustments and integration efforts will continue to drive profitability across our distribution businesses.

FINANCIAL REVIEW

OPERATING RESULT

For the year ended 31 December 2018, the Group recorded total revenue of HK$50,878 million (2017: HK$51,238 million) with the adoption of HKFRS 15, *Revenue from contracts with customers*, from 1 January 2018. On a like-for-like basis excluding the impact of HKFRS 15, the Group's revenue increased by 3.6% to HK$53,104 million. Profit attributable to shareholders increased by 2.2% to HK$820 million (2017: HK$802 million). Without the impact of HKFRS 9 and 15, profit attributable to shareholders increased by 6.7% to HK$856 million.

REVENUE

HKFRS 15 came to effect on 1 January 2018 and impacted the Group in relation to the timing of revenue recognition in the motor business segment and net instead of gross recognition of revenue for agency service businesses in the consumer products segment. The overall impact of HKFRS 15 was a reduction of HK$2,226 million to the Group's reported revenue in 2018.

Motor business

Segment revenue in the motor business accounted for 75.0% of the Group's total revenue. Excluding the impact of HKFRS 15, segment revenue increased by 10.1% to HK$38,297 million (2017: HK$34,789 million). The increase was attributable to the 14.0% increase in revenue in mainland China and 3.4% increase in the Hong Kong and Macao motor segment. These increases were partly offset by the revenue decrease in the Singapore market.

Revenue growth in mainland China was attributable to on-going business reforms and 4S shop portfolio expansion as well as the full year impact of dealerships acquired in 2017 which increased sales and contribution from the premium and luxury segment.

Revenue in Hong Kong and Macao increased primarily due to gains in passenger car sales and strong growth in the motor related businesses including aviation services and the distribution of Princess Yachts. These increases were partly offset by the shortfall in commercial vehicle sales as the Hong Kong Government's emissions reduction programme entered into its third and final stage.

Revenue in the other markets segment decreased due to the delay in the delivery of Euro VI commercial vehicles in Singapore which was partly compensated by the growth in Taiwan commercial vehicle business.

Consumer products business

Segment revenue from the consumer products business segment dropped by 22.6% to HK$12,695 million (2017: HK$16,408 million) primarily due to the impact of HKFRS 15. On a like-for-like basis, segment revenue decreased by 10.0%.

In mainland China, on a like-for-like basis, segment revenue decreased by 21.5% to HK$3,696 million (2017: HK$4,711 million) mainly attributable to restructuring and portfolio optimisation in the food and FMCG business as well as reduced sales in the healthcare distribution business resulting from the government's public health policy shift favouring domestic and generic pharmaceuticals. Revenue from the logistics solution business also decreased as a result of portfolio optimisation. These decreases were slightly offset by growth in the electrical products business with strong appliance sales and increased demand for lifestyle electronics in mainland China.

In Hong Kong and Macao, segment revenue was stable on a like-for-like basis at HK$8,650 million (2017: HK$8,810 million). Revenue from the food and FMCG business and electrical products business was steady against last year while revenue from the healthcare distribution business and logistics business dropped slightly due to the rationalisation of product and customer portfolios.

In the other markets segment, on a like-for-like basis, segment revenue decreased by 16.2% to HK$2,420 million (2017: HK$2,887 million) mainly due to decreased revenue in the food and FMCG business as a result of business restructuring which was partly compensated by growth in the healthcare distribution businesses of Singapore and Malaysia.

SEGMENT PROFIT AFTER TAXATION

Segment profit after taxation in 2018 was HK$1,539 million, an increase of 16.0% as compared with HK$1,327 million in 2017.

Motor business

Segment profit after taxation decreased by 6.2% to HK$1,105 million (2017: HK$1,178 million).

Our mainland China segment profit after taxation decreased by 9.2% to HK$621 million (2017: HK$684 million) upon the opening of eight new 4S shops and reflecting the margin impacts of strategy adjustments following changes in import tariffs and rapidly shifting consumer demand.

Conversely, segment profit after taxation in Hong Kong and Macao increased by 8.5% to HK$357 million (2017: HK$329 million) due to strong passenger cars sales as the market normalised following the expiry of incentives on electric passenger cars in 2017. The favourable performance for passenger cars was partly offset by the weakened demand for commercial trucks as the Hong Kong Government's emission program winds to a close.

Segment profit after taxation in other markets decreased by 23.0% to HK$127 million (2017: HK$165 million) primarily caused by the delay in delivery of Euro VI commercial vehicles in Singapore.

Consumer products business

Segment loss after taxation was HK$2 million (2017: profit of HK$104 million).

The mainland China consumer products business incurred segment loss after taxation of HK$311 million (2017: loss of HK$196 million) mainly due to the poor performance of our food and FMCG business. This was further compounded by reduced profit in the mainland China healthcare distribution business as a result of a decline in sales. These adverse impacts were partly compensated by performance improvement in our logistics business after successful supply chain consolidation. Profitability in the electrical products business also improved as a result of sales growth, particularly in higher-margin lifestyle electronics.

In Hong Kong and Macao, segment profit after taxation increased by 10.6% to HK$292 million (2017: HK$264 million). Improvement in performance was recorded in our food commodity trading, food retail and food processing businesses as a result of margin enhancements driven by brand and store portfolio optimisation as well as operating cost savings after the consolidation of our processing facilities. However, this performance improvement was partly offset by reduced profit from our food and FMCG agency distribution business due to the impact of parallel trading and keen market competition. The healthcare distribution business outperformed last year with business growth and cost savings generated by business streamlining.

In other markets, segment profit after taxation was HK$17 million (2017: HK$36 million), a 52.8% decrease from last year due to additional operational costs incurred in our FMCG businesses in Singapore and East Malaysia. The healthcare distribution business was stable against 2017.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders of the Company was HK$820 million, a slight increase of 2.2% compared with HK$802 million in 2017. Excluding the impact of HKFRS 9 and 15, profit attributable to shareholders increased by 6.7% to HK$856 million. Our result was driven by the stable performance of our motor business and the Hong Kong and Macao consumer products business despite a softening retail market. Losses in the foods and FMCG businesses in mainland China and Southeast Asia dragged down operating profit, but after gains from the disposal of non core assets, profit attributable to shareholders increased against 2017.

EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2018 was based on the profit attributable to shareholders of the Company of HK$820 million and the weighted average number of 1,859,389,232 (2017: 1,834,950,810) ordinary shares in issue during the year. Basic earnings per share was 44.10 HK cents for 2018, an increase of 0.9% as compared with 43.71 HK cents for 2017.

The diluted earnings per share for the year ended 31 December 2018 was the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

DIVIDEND PER SHARE

The Board of Directors proposed payment of a final dividend of 12.38 HK cents per share for the year ended 31 December 2018 (2017: 11.90 HK cents), together with the interim dividend of 5.05 HK cents per share (2017: 5.05 HK cents) already paid, the total dividend for 2018 was 17.43 HK cents per share (2017: 16.95 HK cents), an increase of 2.8%. The final dividend will be payable in cash, with an option granted to shareholders to receive the final dividend in the form of new shares in lieu of cash in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of The Stock Exchange of Hong Kong Limited.

FINANCE COSTS

The Group's finance costs increased by 19.2% to HK$230 million (2017: HK$193 million) mainly due to the consecutive interest rate hikes during the year. The Group's effective interest rate also recorded an increase while we continued to negotiate with banks to mitigate the Group's interest burden.

INCOME TAX

Income tax increased by 7.3% to HK$380 million (2017: HK$354 million). The effective tax rate was sustained at 28.6% (2017: 27.4%) mainly due to the implementation of a tax efficiency programme which compensated the tax impact caused by the increased losses from the mainland China consumer products business.

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$10,793 million (31 December 2017: HK$10,712 million) and the 1,886,023,825 ordinary shares issued at 31 December 2018 (31 December 2017: 1,847,038,804 ordinary shares). Net asset value per share at 31 December 2018 was HK$5.72 (31 December 2017: HK$5.80).

CAPITAL COMMITMENTS

Please refer to Note 33(a) to the financial statements for details of capital commitment outstanding at 31 December 2018.

CONTINGENT LIABILITIES

Please refer to Note 34 to the financial statements for details of contingent liabilities at 31 December 2018.

CAPITAL EXPENDITURE

In 2018, the Group's total capital expenditure was HK$1,136 million (2017: HK$711 million) and the increases in capital expenditure spending are mainly as follows:

Motor Business	–	Renovating 4S dealerships in mainland China, acquisition of motor vehicles to expand the motor leasing businesses in mainland China
Consumer Products Business	–	Office renovation, fixtures and fittings, plant and equipment and logistics facility at Hengqin
Corporate Office	–	Spending on IT systems and infrastructure upgrades

HK$ million	**2018**	2017	Change
Motor Business	**743**	548	195
Consumer Products Business	**171**	134	37
Other Businesses	**10**	13	(3)
Corporate Office	**212**	16	196
At 31 December	**1,136**	711	425

TREASURY POLICY

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

CASH FLOW

Summary of consolidated cash flow statement

HK$ million	**2018**	2017	Change
Operating profit before changes in working capital	**1,903**	2,000	(97)
Decrease in working capital	**360**	402	(42)
Cash generated from operations	**2,263**	2,402	(139)
Income tax paid	**(622)**	(397)	(225)
Net cash generated from operating activities	**1,641**	2,005	(364)
Net cash used in investing activities	**(1,192)**	(611)	(581)
Dividends paid to shareholders of the Company	**(180)**	(103)	(77)
Net cash used in financing activities	**(357)**	(1,391)	1,034
Net decrease in cash and cash equivalents	**(88)**	(100)	12
Cash and cash equivalents at 1 January	**1,013**	1,042	(29)
Net decrease in cash and cash equivalents	**(88)**	(100)	12
Effect of foreign exchange rates changes	**(40)**	71	(111)
Cash and cash equivalents at 31 December	**885**	1,013	(128)

Overview

The Group maintained a healthy cash position. With solid performances from the mainland China and Hong Kong motor businesses, as well as Hong Kong food, consumer and healthcare businesses, operating profit before changes in working capital amounted to HK$1,903 million (2017: HK$2,000 million) for the year. The Group continues prudent working capital management with a reduction of HK$360 million in working capital primarily driven by better receivables management. Net cash used in investing activities was HK$1,192 million, while net cash used in financing activities was HK$537 million. At 31 December 2018, the cash and cash equivalents balance was HK$885 million (2017: HK$1,013 million), a reduction of HK$128 million against the beginning of the year.

Operating profit before changes in working capital

Profit before taxation was HK$1,327 million for 2018 (2017: HK$1,292 million). After adding back non-cash items, operating profit before changes in working capital was HK$1,903 million (2017: HK$2,000 million).

Cash flow from changes in working capital

Working capital decreased by HK$360 million (2017: decreased by HK$402 million) which included an increase in inventories of HK$531 million (2017: decreased by HK$659 million) being fully offset by the increase in creditors and other liabilities of HK$571 million (2017: decreased by HK$455 million) and the decrease in debtors and other assets of HK$320 million (2017: decreased by HK$198 million). The increase in inventories was mainly due to an increase in stock for Euro V commercial vehicles ahead of the adoption of the new emission standards in Hong Kong and Taiwan and Euro VI commercial vehicles in Singapore after the adoption of the new standards. The decrease in trade and other assets was driven by the improvement in collection and receivables ageing management in the consumer products business.

Net cash generated from operating activities

Cash generated from operations was HK$2,263 million (2017: HK$2,402 million). Netting tax payment of HK$622 million (2017: HK$397 million), net cash generated from operating activities was HK$1,641 million (2017: HK$2,005 million). The higher tax paid in the year was mainly due to the settlement of profits tax from the sales of a building in Japan last year. The Group's effective tax rate for the period was 28.6% (2017: 27.4%).

Net cash used in investing activities

Net cash used in investing activities was HK$1,192 million (2017: HK$611 million) which included the settlement of the acquisition of premium 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$537 million (2017: HK$1,494 million). The net proceeds from bank loans was HK$9 million (2017: HK$1,140 million net repayment) and the net outflow to non-controlling interests was HK$140 million (2017: HK$59 million). Interest paid was HK$226 million (2017: HK$192 million). Dividends paid to equity shareholders for the period were HK$180 million (2017: HK$103 million). The Group's year-end total debt was maintained at a similar level as last year.

GROUP DEBT AND LIQUIDITY

The cash and debt position of the Group at 31 December 2018 is summarised as follows:

HK$ million	**2018**	2017	Change
Total debt	**6,971**	6,927	44
Cash and bank deposits	**1,093**	1,138	(45)
Net debt	**5,878**	5,789	89

At 31 December 2018, the Group's net debt position was HK$5,878 million (2017: HK$5,789 million), a slight increase of HK$89 million as a result of the increase in debt of HK$44 million and the decrease in cash of HK$45 million. The Group's year-end total debt and net debt position were maintained at last year's level.

The original denomination of the Group's borrowings and cash and bank deposits by currency at 31 December 2018 is summarised as follows:

HK$ million equivalent	HKD	RMB	JPY	USD	SGD	NTD	THB	Others	**Total**
Total debt	4,167	309	209	2,278	–	8	–	–	**6,971**
Cash and bank deposits	105	613	105	19	43	111	38	59	**1,093**
Net debt / (cash)	4,062	(304)	104	2,259	(43)	(103)	(38)	(59)	**5,878**

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 net gearing ratio of the Group at 31 December 2018 and 31 December 2017.

HK$ million	**2018**	2017	Change
Net debt	**5,878**	5,789	89
Shareholders' funds	**10,282**	10,145	137
Total capital	**16,160**	15,934	226
Net gearing ratio	**36.4%**	36.3%	0.1%

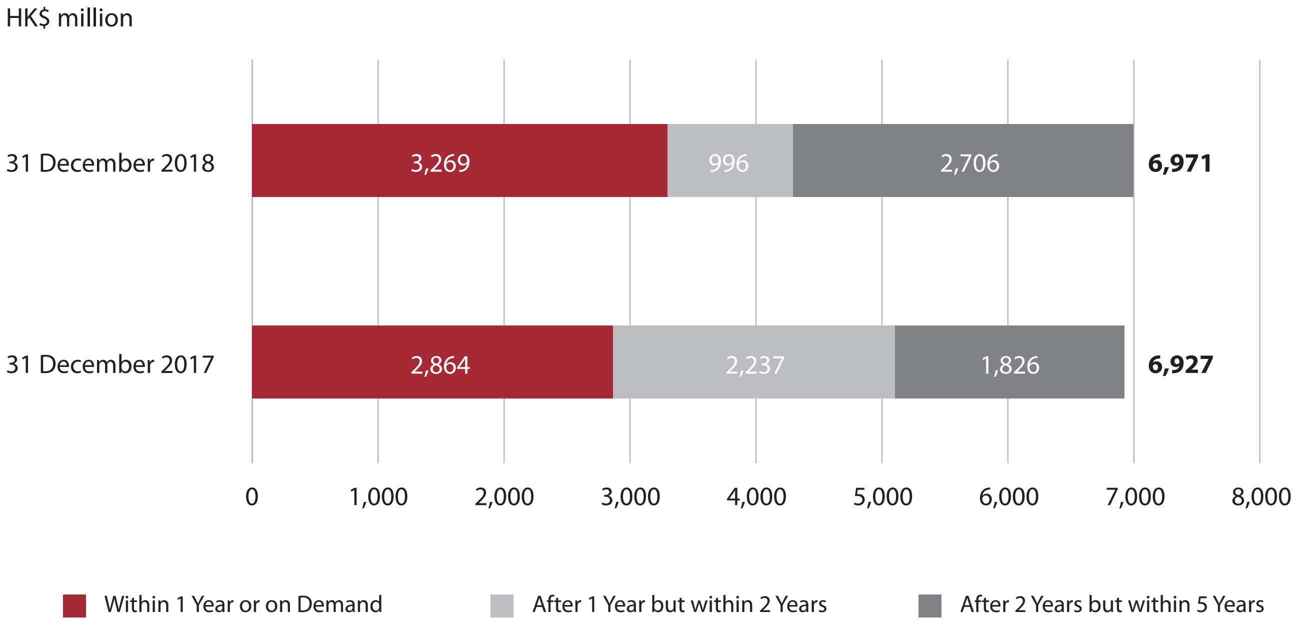
The Group maintained a healthy net gearing ratio of 36.4%. The position was steady with slight changes in shareholders' funds and net debt.

The effective interest rate of the Group's borrowings for the period was 3.1% (2017: 2.5%). Although interest rate hikes in the US totalled 100 basis points in 2018, the Group's effective interest cost only increased by 60 basis points in 2018 as the Group's borrowings were predominantly denominated in Hong Kong dollars, and the pace of Hong Kong interest rate hikes was slower than US interest rates in 2018. In addition, the Group also actively negotiated with banks to lower the financing margin to offset the effect of interest rate hikes.

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 31 December 2018 and 31 December 2017.

Maturity profile of outstanding debt



The portion of debt matured within 1 year increased because part of the term loans became due within 1 year as of 31 December 2018. The portion of debt matured after 2 years increased by HK$880 million due to refinancing of matured term loans and refinancing of short term loans by new term loans during the year. The Group will continue to refinance the term loans upon maturity and maintain a healthy maturity profile.

Sources of financing

The below table shows the source of financing at 31 December 2018:

HK$ million	2018	2017	Change
Utilised term loans and revolving loans	**5,965**	5,207	758
Utilised money market lines	**1,011**	1,635	(624)
Discounted bills and trade loans	**–**	80	(80)
Others	**(5)**	5	(10)
Total	**6,971**	6,927	44

Committed and uncommitted facilities

HK$ million	31 December 2018 Total	Utilised	Available	31 December 2017 Total	Utilised	Available
Committed facilities:						
Term loans and revolving loans	**6,185**	**5,965**	**220**	5,897	5,207	690
Uncommitted facilities:						
Money market lines	**11,221**	**1,011**	**10,210**	10,052	1,635	8,417
Total loan facilities	**17,406**	**6,976**	**10,430**	15,949	6,842	9,107
Trading facilities	**5,739**	**645**	**5,094**	6,153	771	5,382
Total	**23,145**	**7,621**	**15,524**	22,102	7,613	14,489

The Group maintains sufficient banking facilities to support the business. At 31 December 2018, facilities totaled HK$23,145 million including total loan facilities of HK$17,406 million and trading facilities of HK$5,739 million. Within the total loan facilities of HK$17,406 million, committed facilities totaled HK$6,185 million, representing 36% of total loan facilities. Uncommitted facilities totaled HK$11,221 million, representing 64% of total loan facilities. Utilised loan facilities totaled HK$6,976 million, representing 40% of total loan facilities. Undrawn available loan facilities totaled HK$10,430 million. The Group will ensure adequate financing resources are maintained to support the future growth of the business.

PLEDGED ASSETS

At 31 December 2018, the Group's assets of HK$275 million (2017: HK$372 million) were pledged in relation to the financing of issuance of bank acceptance drafts and the purchase of vehicle stock in mainland China.

LOAN COVENANTS

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

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

At 31 December 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 31 December 2018, the Group had total outstanding interest rate swaps and a cross currency swap with a total notional contract amount of HK$2,126 million (31 December 2017: HK$1,776 million).

The Group also recognised interest rate swaps and a cross currency swap with a fair value of HK$2 million assets (31 December 2017: HK$13 million assets) as derivative financial instruments.

Interest rate of 36% of committed bank borrowings were fixed by interest rate swaps and the coverage was in appropriate level.

(2) Currency risk

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

The Group enters into foreign currency forward contracts primarily for hedging its sales and purchases that are denominated in currencies other than the functional currency of the operations to which they related. At 31 December 2018, the Group recognised foreign currency forward contracts with a fair value of HK$1 million assets (31 December 2017: HK$2 million liabilities) as derivative financial instruments.

In addition, certain bank borrowings denominated in Japanese Yen are designated as a hedge of the net investment in a subsidiary in Japan. The carrying amount and the fair value of these bank borrowings at 31 December 2018 was HK$85 million (31 December 2017: HK$83 million).

As of 31 December 2018, the Group has reviewed its foreign hedging position and considered it appropriate.

(3) Counterparty risk

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

The Group has set up limits for banks in order to ensure 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 the rolling base cash flow forecast for the next 12 months and comparing liquid assets with short-term liabilities.

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

(5) Credit risk in finance lease receivables

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

As of 31 December 2018, the Group has reviewed the default rate in finance lease receivables and considered it normal.

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

OPERATIONAL RISK

(1) Discontinuation of distributorship or dealership rights

The core business of the Group is to act as the distributor or dealer of motor, food, healthcare and other consumer products. If distributorship or dealership rights are discontinued, it may have a significant impact on the business.

The Group has adopted a multi-brand and diversified market 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.

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.

(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 program.

FIVE YEAR SUMMARY

At year end (HK$ million)	**2018**	2017	2016	2015	2014
Total debt	**6,971**	6,927	7,424	6,550	8,661
Cash and bank deposits	**1,093**	1,138	1,160	1,110	1,493
Net debt	**5,878**	5,789	6,264	5,440	7,168
Shareholders' funds	**10,282**	10,145	8,732	9,047	9,322
Total capital	**16,160**	15,934	14,996	14,487	16,490
Capital employed	**17,253**	17,072	16,156	15,597	17,983
Net gearing ratio	**36.4%**	36.3%	41.8%	37.6%	43.5%
Interest cover (times)	**10**	11	10	8	7
Property, plant and equipment	**4,019**	3,784	3,318	3,485	3,821
Investment properties	**231**	229	215	384	374
Lease prepayments	**804**	858	499	568	551
Interests in associates	**364**	214	175	350	350
Interests in joint ventures	**288**	347	364	411	415

For the year (HK$ million)	**2018**	2017	2016	2015	2014
Revenue [Note (i)]	**50,878**	51,238	46,462	44,803	46,489
Profit attributable to shareholders	**820**	802	511	570	750
Basic earnings per share (HK cents)	**44.10**	43.71	27.89	31.11	40.94
Diluted earnings per share (HK cents) [Note (ii)]	**44.10**	43.71	27.89	31.11	40.94
Net gain on remeasurement of investment properties	**5**	7	3	18	10
EBITDA	**2,230**	2,066	1,867	1,744	1,935
Dividend per share	**HK cents**	HK cents	HK cents	HK cents	HK cents
Interim	**5.05**	5.05	4.75	6.10	9.30
Final	**12.38**	11.90	3.69	6.40	6.60
Total	**17.43**	16.95	8.44	12.50	15.90

Notes:

(i) As the Group has expanded its principal activities to cover the businesses of hire purchase and insurance agency, the handling and service charge income and commission income from these businesses are classified under "Revenue". Comparative figures of such income totalling HK$732 million have been reclassified from "Other net income" to "Revenue" to conform to the current year's presentation.

In 2018, the Group adopted HKFRS 15, *Revenue from contracts with customers*, which was effective for the annual period commencing on or after 1 January 2018. The Group has elected to use the cumulative effect transition method and therefore figures for the years 2014 to 2017 were not restated.

(ii) The diluted earnings per share for the years 2014 to 2018 are the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

FIVE YEAR KEY OPERATIONAL DATA

Total number of new vehicles sold by DCH

Location	2018	2017	2016	2015	2014
Mainland China	**112,226**	103,181	100,297	95,592	97,200
Hong Kong	**10,210**	10,244	10,431	12,820	12,695
Macao	**1,242**	1,362	870	1,828	2,111
Other markets	**3,698**	4,259	5,434	4,879	3,830
Total units	**127,376**	119,046	117,032	115,119	115,836

Total number of 4S shops in mainland China

At year end	2018	2017	2016	2015	2014
4S shops	**88**	80	78	79	75

Total number of motor vehicle showrooms in Hong Kong

At year end	2018	2017	2016	2015	2014
Motor vehicle showrooms	**11**	11	11	12	11

Total number of DCH food retail outlets in Hong Kong

At year end	2018	2017	2016	2015	2014
DCH Food Mart	**2**	3	7	17	24
DCH Food Mart Deluxe	**50**	49	50	68	66
Total	**52**	52	57	85	90

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE CHAIRMAN

Zhang Jijing
Aged 63, the Chairman and a Non-executive Director since January 2014. Mr Zhang also serves as the chairman of the nomination committee of Dah Chong Hong Holdings Limited (the "Company", together with its subsidiaries, the "Group"). Mr Zhang is the chairman of CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company), CITIC Mining International Ltd and CITIC Pacific China Holdings Limited ("CITIC Pacific China"), and a director of CITIC Hong Kong (Holdings) Limited ("CITIC HK Holdings"). Mr Zhang ceased to be president of CITIC Pacific with effect from 1 January 2019. He was an executive director and a vice president of CITIC Group Corporation ("CITIC Group", the ultimate holding company of the Company), the head of the strategy and planning department of CITIC Group, an executive director of CITIC Limited ("CITIC Limited", a controlling shareholder of the Company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")), and a non-executive director of CITIC Securities Company Limited (listed on the Stock Exchange and the Shanghai Stock Exchange), China CITIC Bank Corporation Limited ("China CITIC Bank", listed on the Stock Exchange and the Shanghai Stock Exchange) and CITIC Resources Holdings Limited (listed on the Stock Exchange).

EXECUTIVE DIRECTORS

Lai Ni Hium *Chief Executive Officer*
Aged 57, an Executive Director since June 2016. Mr Lai joined the Company as Deputy Chief Executive Officer in June 2016 and appointed as the Chief Executive Officer of the Company with effect from 1 March 2017. Mr Lai was the executive director, chief financial officer and company secretary of China Resources Beer (Holdings) Company Limited ("CRBH", a company listed on the Stock Exchange) until 31 May 2016. He remains a non-executive director of CRBH. Mr Lai was previously the executive director, non-executive director, chief financial officer and company secretary of China Resources Microelectronics Limited. Prior to that, he served as the chief financial officer of Eagle Brand Holdings Limited (now known as Nam Cheong Limited), which is a company listed on the Singapore Exchange and before then, he served as the executive director and chief executive officer of Logic International Holdings Limited (now known as China Resources Gas Group Limited). Mr Lai obtained a Bachelor of Commerce degree from the University of Western Australia and a graduate diploma in Business and Administration from the Curtin University of Technology of Western Australia. He is a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia.

Lee Tak Wah
Aged 54, an Executive Director since March 2017. Mr Lee is the head of Motor Group and is responsible for overseeing the motor business operation and development. He is also in charge of the motor related business for the Group. Mr Lee joined the Group in June 1999. Prior to his appointment as Executive Director of the Company, Mr Lee took up various senior positions in the Group. Mr Lee obtained a Bachelor of Engineering (Mechanical Engineering) degree from the Hong Kong Polytechnic University and received a Master in Business Administration degree from the Chinese University of Hong Kong. Mr Lee is a member of The Hong Kong Institute of Engineers. He has more than 20 years experience in the motor industry.

Fung Kit Yi, Kitty *Chief Financial Officer*
Aged 55, an Executive Director since March 2017. Ms Fung is the Chief Financial Officer of the Group and is responsible for the finance and accounting, internal control, risk management, banking and treasury, taxation and investor relations of the Group. Ms Fung joined the Group in April 2016. Ms Fung holds a Master of Business Administration degree and is a Certified Public Accountant of The Hong Kong Institute of Certified Public Accountants. She is also a Certified Management Accountant in the United States and a Chartered Financial Analyst of The CFA Institute. Prior to joining the Group, Ms Fung has over 30 years of hands-on and diversified working experience in renowned multinational corporations and well-known local organisations across branded food and beverage products, fast moving consumer goods, manufacturing, publishing, banking and retail industries in the United States, Greater China and Asia Pacific regions.

NON-EXECUTIVE DIRECTORS

Yin Ke

Aged 55, a Non-executive Director since October 2018. Mr Yin is currently the vice chairman and a director of CITIC Pacific. He is also an external director of Shandong Heavy Industry Group Co., Ltd. Mr Yin joined CITIC Securities Company Limited ("CITIC Securities", listed on the Stock Exchange and Shanghai Stock Exchange) in 2007. He was appointed as an executive director of CITIC Securities from 30 June 2009 to March 2017 and was the vice chairman of CITIC Securities between March 2011 and January 2016. He was also the chief executive officer of CITIC Securities International Company Limited from 2007 to August 2018. From December 2010 to January 2018, Mr Yin served as the non-executive director of Hui Xian Asset Management Limited (the manager of Hui Xian Real Estate Investment Trust (listed on the Stock Exchange)). Mr Yin was previously a non-executive Director of the Company from January 2010 to December 2012. Mr Yin is among the earliest participants in mainland China capital markets. He started his career in 1990 with the founding of the Shenzhen Stock Exchange. Prior to joining CITIC Capital Holdings Limited as the deputy chief executive officer in 2002, he held senior management positions in Jun An Securities Limited, Guo Tai Jun An Securities Company Limited and China United Securities Limited. As chairman of the International Cooperation Committee of Securities Association of China from 2011 to 2017, Mr Yin advised both regulators and industry peers on policies and activities of international cooperation. He is currently a member of the Corporate Advisory Council of Hong Kong Securities and Investment Institute, a member of the Advisory Committee of Hong Kong Securities and Futures Commission and a member of Hong Kong Trade and Development Council Financial Services Advisory Committee. Mr Yin has rich experiences in capital markets, corporate finance and investment banking in both the PRC and overseas. Mr Yin graduated with a bachelor degree in electrical engineering in 1985 and obtained a master degree in Economics from Zhejiang University in 1991. Mr Yin has completed the advanced management program at Harvard Business School in 2012.

Kwok Man Leung

Aged 49, a Non-executive Director since July 2007. Mr Kwok is a Chartered Financial Analyst. He is the executive vice president and a director of CITIC Pacific. He is a director of CITIC Pacific China and Daye Special Steel Co., Ltd. (listed on the Shenzhen Stock Exchange), and also a director of certain member companies of CITIC Limited involved in iron ore mining and property and of certain member companies of CITIC Pacific involved in special steel, energy, property and infrastructure businesses. He is in charge of the business development and human resources and administration of CITIC Pacific. Mr Kwok is also a non-executive director of VPower Group International Holdings Limited (listed on the Stock Exchange). He was an executive director of CITIC Limited and a non-executive director of CITIC Telecom International Holdings Limited ("CITIC Telecom", listed on the Stock Exchange).

Fei Yiping

Aged 55, a Non-executive Director since January 2010. Mr Fei is a director and the chief financial officer of CITIC Pacific, the vice chairman of CITIC Pacific China, a director and the chief financial officer of CITIC HK Holdings, a non-executive director of CITIC Telecom, a director of Companhia de Telecomunicações de Macau, S.A.R.L., and also a director of certain member companies of CITIC Pacific involved in special steel, property and energy, a director of certain member companies of CITIC Limited involved in iron ore mining, property and its interests in McDonald's mainland China and Hong Kong business (including, inter alia, Grand Foods Holdings Limited), and also the chairman of the audit, compliance, risk management committee of Grand Foods Holdings Limited. Mr Fei is a graduate from Beijing Science and Technology University and received a Master in Business Administration from the University of Edinburgh in the United Kingdom. He is a FCPA of CPA Australia and has over 23 years' experience in accounting and financial management. He has been with CITIC Group since 1991. Between 2001 and 2008, Mr Fei first acted as treasurer and director of CitiSteel USA, Inc. and then as vice president of CITIC USA Holdings, Inc. and chief representative of CITIC Group in New York. When he returned to China in 2008, he became deputy director-general of the finance department of CITIC Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Kay Cheung

Aged 72, an Independent Non-executive Director since December 2012. Mr Chan is the vice chairman of The Bank of East Asia (China) Limited. Mr Chan joined The Bank of East Asia, Limited ("BEA") in 1965 and was appointed as an executive director and deputy chief executive of BEA in 1996 and 1997 respectively. He retired from BEA in May 2007 after serving for over 41 years. Mr Chan possesses extensive knowledge and experience in the banking industry. Mr Chan is currently an independent non-executive director of China Electronics Huada Technology Company Limited, Chu Kong Shipping Enterprises (Group) Company Limited, Hong Kong Food Investment Holdings Limited and SOCAM Development Limited, all listed on the Stock Exchange. He was a senior adviser of BEA and the chairman of Shaanxi Fuping BEA Rural Bank Corporation. Mr Chan is a fellow member of The Hong Kong Institute of Bankers, a member of the Committee of Overseers of Lee Woo Sing College of The Chinese University of Hong Kong, a member of The China UnionPay International Advisory Group and an International Senior Economic Consultant of The People's Government of Shaanxi Province.

Chan Hui Dor Lam, Doreen

Aged 65, an Independent Non-executive Director since March 2016. Mrs Chan also acts as the chairman of the remuneration committee of the Company. Mrs Chan serves on the board of Haven of Hope Christian Service. She served as an executive advisor of Word of Life Ministry of the China Graduate School of Theology till July 2018. She was a member and the treasurer of the council and the court of Hong Kong Baptist University and of the board of governors of Hong Kong Baptist University Foundation and was formerly a chairman of the board of the China Graduate School of Theology, Non-subvented Service Governing Committee of Haven of Hope. Mrs Chan was a director and chief executive officer of CITIC Bank International Limited (now known as China CITIC Bank International Limited) till 22 October 2012. She had also been a director of CITIC Group, non-executive director of China CITIC Bank, director, managing director and alternate chief executive officer of CITIC International Financial Holdings Limited, chairman of HKCB Finance Limited, CITIC Insurance Brokers Limited and CITIC Bank International (China) Limited. Since 22 October 2012, she has not retained any role in CITIC Group or any of its subsidiaries. Mrs Chan has 40 years of experience in the banking industry.

Woo Chin Wan, Raymond

Aged 64, an Independent Non-executive Director since July 2016. Mr Woo also serves as the chairman of the audit committee of the Company. Mr Woo is currently an independent non-executive director of Bank of Communications Co., Ltd. (listed on the Stock Exchange and the Shanghai Stock Exchange). He became an independent non-executive director of Lenovo Group Limited (listed on the Stock Exchange) since 22 February 2019. He is an independent non-executive director of Great Wall Pan Asia Holdings Limited (listed on the Stock Exchange) until 26 November 2018. Mr Woo is a retired partner of Ernst & Young ("EY"). Before his retirement in June 2015, he had held various senior positions with EY in the Greater China area. He was a director and the general manager of Ernst & Young Hua Ming CPA, a member of EY's Greater China Leadership Team, and the managing partner of EY's Greater China Operations. He has more than 30 years of professional experience, specialising in audit, corporate restructuring, IPO, risk management, and mergers and acquisitions. Mr Woo is a Canadian Chartered Accountant, and a Hong Kong Certified Public Accountant.

Zhang Lijun

Aged 64, an Independent Non-executive Director since April 2018. Ms Zhang has worked for the China Business Association since 2001 and served as vice president in 2015. From 1992-2000, Ms Zhang worked and served as deputy director of the Ministry of Commerce of the People's Republic of China and the National Bureau of Internal Trade. Ms Zhang has rich experience in management in the catering industry and standardisation of the business service industry. She is a senior economist, senior auditor of quality management systems, quality inspector of military quality, senior assessor of national wine house and senior assessor of green shopping malls. Ms Zhang is a postgraduate student in business administration (MBA) at Renmin University of China. She also studied business economics at Beijing University of Staff and Workers from 1980 to 1984.

Cheng Jinglei
Aged 51, an Independent Non-executive Director since April 2018. Mr Cheng is currently partner and president of AGRC. Mr Cheng joined SAIC Volkswagen Automotive Co. Ltd. ("SAIC-VW") in 1989 and took up various positions in SAIC-VW and SAIC Motor Corporation Limited ("SAIC Motor"). From 2014 to 2017, Mr Cheng was the chief engineer (vice president) of SAIC Motor responsible for strategy, innovative technology, IT and big data (including AI). He also served as chairman of SAIC Motor Venture Capital in Silicon Valley, DIAS Automotive Electronics System Co. and Dalian Sunrise Power (Fuelcell Development and Commercialization) and a director of SAIC-VW, SAIC General Motors Corporation Limited and General Motors Korea Company (formerly Daewoo). He was the vice president of Society of Automotive Engineers of China and president of Shanghai Society of Automotive Engineers. Mr Cheng is a senior engineer (Professor Level) and has a background of more than 29 years in the motor industry, with extensive knowledge and experience particularly in strategy analysis and formulation, investment management (business, merger and acquisition and venture capital), product planning and development, production planning and operation efficiency improvement. Mr Cheng obtained a master's degree in business administration from Shanghai Jiaotong University and a bachelor's degree in electrical engineering from Donghua University.

SENIOR MANAGEMENT

Wu Ying Ha *Chief Corporate Officer*
Aged 55, a Senior Corporate Director and Chief Corporate Officer of the Group. He is the executive-in-charge of a range of Group corporate functions including human resources, information technology, properties and legal and compliance. Prior to joining the Group, he was the vice president of CITIC Resources Holdings Limited (a fellow subsidiary of the Company listed on the Stock Exchange) and responsible for human resources, administrative management and investor relationship management of CITIC Resources Group. In addition, he served as assistant general manager and general manager of Human Resources & Administration of CITIC United Asia Investments Limited and was the manager of General Manager Office and assistant general manager of International Tour Department of China Travel Service (Holdings) Hong Kong Limited. Mr Wu has over 22 years' experience in corporate management, especially in human resources and administration.

Leung Pui Ching, Betty
Aged 56, a Corporate Director of the Group and the Head of the Group's Hong Kong Food business. This comprises food commodity trading, food manufacturing, food retailing and consumer product agency distribution. She is also Chief Executive of Sims Trading Company Limited ("Sims Trading"), a marketing and distribution business of agency food and consumer products in Hong Kong and Macao. She became part of CITIC Pacific (now CITIC Limited) in 2001 and was transferred to the Group when Sims Trading became part of the Group in 2004. Ms Leung has over 30 years sales and marketing experience in sales, marketing, advertising and purchasing across different parts of the supply chain including manufacturing, distribution and retailing in the consumer product industry. Ms Leung is currently Chairlady of the Hong Kong Suppliers Association, committee member of the Efficient Consumer Response Hong Kong Advisory Board of GSI and The Hong Kong Food, Drink & Grocery Association.

Li Chendi
Aged 46, a Corporate Director of the Group and the Director and General Manager of Dah Chong Hong Motors (China) Limited ("DCHM China"). Mr Li is primarily responsible for the sales and operation of all 4S shops across mainland China. He joined the Group in November 2009 and has more than 20 years' experience in the China motor industry.

Wong Ming Yin
Aged 57, a Corporate Director of the Group and the Director and General Manager of DCHM China. Mr Wong is primarily responsible for the development and management of the Group's city dealerships for motor vehicles in the PRC. Mr Wong joined the Group in July 1998 and has more than 25 years' experience in the motor industry.

Timothy John Collins
Age 50, a Corporate Director of the Group and the Chief Executive Officer of DCH Auriga Healthcare and IMSA Southeast Asia region. He joined Li and Fung Asia ("LF Asia") in 2004 and has been essential to LF Asia's development, leading the expansion of market coverage across Asia and orchestrating the recent acquisition of LF Asia to DCH in June 2016. Prior to joining the Group, Mr Collins has over 25 years of experience in fast moving consumer goods and healthcare industries.

REPORT OF DIRECTORS

The board (the "Board") of directors (the "Directors") of Dah Chong Hong Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "DCH") have pleasure in presenting to shareholders their report for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

SUBSIDIARY COMPANIES

The names of the principal subsidiaries, their places of incorporation / establishment / operation, particulars of their share capital and principal activities are set out in note 40 to the financial statements.

BUSINESS REVIEW

A detailed review on business performance of the Group for the year ended 31 December 2018, as well as the principal risks and uncertainties, and future prospects of the Group are set out in the sections headed "Chairman's Letter to Shareholders" (pages 6 to 9), "Business Review" (pages 10 to 26) and "Risk Management" (pages 36 to 39) of this 2018 Annual Report, the discussions thereof form part of this Report of Directors.

DIVIDEND POLICY

The Board approved and adopted the dividend policy of the Company ("Dividend Policy") on 28 September 2007.

Under the Dividend Policy, the Company expects to maintain a general policy that not less than 30% of its profits available for distribution in each year will be distributed to its shareholders. However, final dividends, if any, on the outstanding shares must be recommended by the Company's Board and approved at the Company's annual general meeting of shareholders. In addition, the Board may declare such interim dividends as appear to the Board to be justified by the Company's profits. The payment and the amount of any dividends declared will be subject to the articles of association and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). No dividends are payable if doing so would render the Company unable to pay its liabilities as they become due or the realisable assets would be less than the aggregate of its liabilities and its issued share capital. The declaration or recommendation of, payment and amount of dividends will be subject to the discretion of the Board and will depend, among other things, on:

- the Group's results of operations and cash flows;
- the Group's future prospects;
- general business conditions;
- the Group's capital requirements and surplus;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by subsidiaries to the Company;
- taxation considerations;
- possible effects on the Company's creditworthiness;
- statutory and regulatory restrictions; and
- any other factors as the Board may deem relevant.

The Company's ability to pay cash dividends will also depend upon the amount of distributions, if any, received by the Company from its operating subsidiaries. In particular, the PRC laws and regulations governing dividend distributions for foreign invested enterprises differ from those for domestic enterprises.

The Dividend Policy is subject to review by the Directors at any time and the Company may determine not to pay any dividends as a result of such review.

DIVIDENDS

The Directors declared an interim dividend (with scrip option) of 5.05 HK cents (2017: 5.05 HK cents) per share in respect of the year ended 31 December 2018 which was paid on 25 October 2018. The Directors recommended, subject to the approval of the shareholders at the forthcoming annual general meeting to be held on 17 May 2019 (the "2019 AGM"), the payment of a final dividend of 12.38 HK cents (2017: 11.90 HK cents) per share in respect of the year ended 31 December 2018 to shareholders whose names appear on the register of members at the close of business on 27 May 2019.

The Directors propose that shareholders be given the option to receive the final dividend in new shares in lieu of cash. The scrip dividend scheme is subject to (1) the approval of the proposed final dividend at the 2019 AGM; and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant to the scrip dividend scheme. A circular containing details of the scrip dividend scheme will be despatched to shareholders together with the form of election for scrip dividend on or about 12 June 2019. It is expected that the final dividend warrants and share certificates for the scrip dividend will be despatched to shareholders on or about 16 July 2019.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$3.4 million (2017: HK$2.0 million).

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's Total Purchases	
	2018	2017
The largest supplier	**11.9%**	10.8%
Five largest suppliers in aggregate	**39.6%**	36.0%

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

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2018 are set out in note 26 to the financial statements.

DIRECTORS

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

Executive Directors

Mr Lai Ni Hium	
Mr Lee Tak Wah	
Ms Fung Kit Yi, Kitty	
Mr Lau Sei Keung	*(retired with effect from 1 April 2018)*

Non-executive Directors

Mr Zhang Jijing	
Mr Yin Ke	*(appointed with effect from 9 October 2018)*
Mr Kwok Man Leung	
Mr Fei Yiping	

Independent non-executive Directors

Mr Chan Kay Cheung	
Mrs Chan Hui Dor Lam, Doreen	
Mr Woo Chin Wan, Raymond	
Ms Zhang Lijun	*(appointed with effect from 1 April 2018)*
Mr Cheng Jinglei	*(appointed with effect from 1 April 2018)*
Mr Hsu Hsung, Adolf	*(resigned with effect from 1 April 2018)*
Professor Yeung Yue Man	*(resigned with effect from 1 April 2018)*

Biographical details of the Directors are set out on pages 42 to 45 of this 2018 Annual Report.

In accordance with Article 104(A) of the Articles of Association of the Company, Messrs Zhang Jijing, Lee Tak Wah, Woo Chin Wan, Raymond and Ms Fung Kit Yi, Kitty shall retire by rotation from the Board at the 2019 AGM and, all being eligible, offer themselves for re-election.

The list of directors who have served on the boards of the subsidiaries of the Company during the financial year ended 31 December 2018 and up to the date of this report is available on the Company's website at www.dch.com.hk under the "About DCH" section.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

The Company entered into an administrative services agreement with CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company) on 28 August 2014, pursuant to which the Company shared certain administrative services, namely, company secretarial services, internal audit services and tax compliance services with CITIC Pacific which took effect on 1 July 2014. The agreement shall continue thereafter in force from year to year but may be terminated by either party giving six months' prior notice in writing to the other party. At the request of the Company, CITIC Pacific discontinued the tax compliance services with effect from 1 January 2018. The charges payable by the Company under the agreement will be determined based on cost of the services and the time spent by CITIC Pacific and calculated in proportion to their departmental charges.

Charges paid by the Company for the above services to CITIC Pacific for the year ended 31 December 2018 was HK$10.1 million (2017: HK$11.1 million).

CITIC Limited ("CITIC Limited", a controlling shareholder of the Company) has executed a deed of non-competition dated 28 September 2007 in favour of the Company to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Limited and / or its associates (as defined under the then Rules Governing the Listing of Securities on the Stock Exchange) are regarded as a controlling shareholder of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), (i) CITIC Limited will not engage and will procure its subsidiaries (excluding the Company and its subsidiaries) not to engage in the trading and distribution of motor vehicles, food commodities, fast moving consumer goods and consumer products and provision of logistics services as then engaged in by the Company and disclosed in the prospectus dated 4 October 2007 (the "Prospectus"), or in any other business that may compete, directly or indirectly, with such business ("Restricted Activity"), and (ii) in the event that any opportunity is made available to CITIC Limited to invest in any independent third party's business engaging in the Restricted Activity, CITIC Limited will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC Limited has executed a deed of indemnity dated 28 September 2007 in favour of the Group under which CITIC Limited agreed to indemnify the Group in respect of various issues if such matters subsisted prior to the listing of the shares of the Company. Such issues include taxation claims, defects in titles of properties, leakage of assets resulting from the contractual arrangements with the registered owners of those PRC companies through which the Group conducts its operations in the industries that have foreign ownership restrictions, failure to the payment of social security and housing accumulations funds, failure to obtain business operating licences and permits. No claim has been made by the Group against CITIC Limited pursuant to the indemnity during the financial year ended 31 December 2018.

Apart from the above and the transactions as mentioned in the sections headed "Continuing Connected Transactions" in this report, none of the Company and its subsidiaries entered into any other contract of significance with the Company's controlling shareholders or their subsidiaries which were subsisting during the financial year ended 31 December 2018.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

None of the Directors has or at any time during the year had, an interest which is or was material, either directly or indirectly, in any transaction, arrangement or contract with the Company or any of its subsidiary companies, which was significant in relation to the business of the Company, and which was subsisting at the end of the year or which had subsisted at any time during the year.

RELATED PARTY TRANSACTIONS

The Group has entered into certain transactions in the ordinary course of business and on normal commercial terms which were "material related party transactions", details of which are set out in note 35 to the financial statements. Some of these transactions also constitute "Continuing Connected Transactions" under the Listing Rules as summarised below.

CONTINUING CONNECTED TRANSACTIONS

During 2018, the Group has entered into the following continuing connected transactions which constituted non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

1. Leasing of premises for operations of the Group

   (a) On 29 May 2015, the Company entered into tenancy agreements in respect of following properties (the "Tenancy Agreements") with the respective landlords, all being subsidiaries of CITIC Limited, for leasing the premises necessary for the operations of its business in Hong Kong for a term of 3 years from 1 June 2015 to 31 May 2018. On 31 May 2018, the Company entered into tenancy agreements in respect of such properties (other than 12th Floor, CITIC Telecom Tower) (the "Renewal Tenancy Agreements") with the respective landlords ("Landlords") for a further term of three years from 1 June 2018 to 31 May 2021. Details of these tenancies are as follows:

Location	Agreement Date	Monthly Rental HK$	Term
7/F – 11/F CITIC Telecom Tower, 93 Kwai Fuk Road, Kwai Chung, New Territories, Hong Kong	29.5.2015 31.5.2018	1,283,507 1,177,996	1.6.2015-31.5.2018 1.6.2018-31.5.2021
Block C of Yee Lim Industrial Centre, Nos. 2-6 Kwai Hei Street, and Nos. 2-28 Kwai Lok Street, Kwai Chung, New Territories, Hong Kong	29.5.2015 31.5.2018	2,350,231 2,836,928	1.6.2015-31.5.2018 1.6.2018-31.5.2021
Factory Unit A (also known as Factory Unit 1) on G/F (including loading and unloading platform) and Car Parking Space No. 112 on G/F of Tsuen Wan Industrial Centre, Nos. 220-248 Texaco Road, Tsuen Wan, New Territories, Hong Kong	29.5.2015 31.5.2018	497,477 538,221	1.6.2015-31.5.2018 1.6.2018-31.5.2021
Unit A on G/F, Units 1A, 1B and 1C on 1/F, Portion on 1/F, 2/F, Storeroom on 7/F and Portion on 8/F and Unit C on 12/F of No. 111 Lee Nam Road, Ap Lei Chau, Hong Kong	29.5.2015 31.5.2018	1,772,697 2,051,879	1.6.2015-31.5.2018 1.6.2018-31.5.2021
DCH Building No. 20 Kai Cheung Road, Kowloon, Hong Kong	29.5.2015 31.5.2018	11,610,688 13,697,321	1.6.2015-31.5.2018 1.6.2018-31.5.2021

In addition, on 31 May 2018, DCH Auriga (Hong Kong) Limited ("DCH Auriga", an indirect wholly-owned subsidiary of the Company) as the tenant entered into a tenancy agreement ("Wyler Centre Tenancy Agreement") with Famous Land Limited ("Famous Land", an indirect wholly-owned subsidiary of CITIC Pacific) as the landlord, pursuant to which DCH Auriga would lease 7th Floor, Wyler Centre I, 202-210 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong for the term of seven months commencing from 1 June 2018 and expired on 31 December 2018.

The annual cap (including rentals, management fees and other outgoings (other than those which are collected by relevant landlords from the Company for payments to independent third parties)) payable under the Tenancy Agreements for the financial year ended 31 December 2018 is approximately HK$102.9 million. The aggregate amount paid by the Group to the Landlords under the Tenancy Agreements during the year was approximately HK$89.7 million which did not exceed the capped amount.

The annual cap (including rentals, management fees and other outgoings (other than those which are collected by the Landlords and Famous Land from the Company and DCH Auriga respectively for payments to independent third parties)) payable under the Renewal Tenancy Agreements and the Wyler Centre Tenancy Agreement for the financial years ended 31 December 2018 and ending 31 December 2019, 2020 and 2021 is approximately HK$161.6 million, HK$274.2 million, HK$298.8 million and HK125.2 million, respectively. The aggregate amount paid by the Group to the Landlords and Famous Land under the Renewal Tenancy Agreements and the Wyler Centre Tenancy Agreement during the year was approximately HK$146.4 million which did not exceed the capped amount.

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

CITIC Pacific is an intermediate controlling shareholder of the Company and is therefore a connected person of the Company under Rule 14A.07 of the Listing Rules. Therefore, the transactions under the Wyler Centre Tenancy Agreement constituted continuing connected transactions for the Company.

Details of these continuing connected transactions were set out in the announcement of the Company dated 31 May 2018.

(b) On 13 June 2018, MHK Restaurants Limited ("MHK", a direct wholly-owned subsidiary of M China Management Limited ("MCML") and an indirect non-wholly owned subsidiary of CITIC Limited) as the tenant accepted and entered into the tenancy renewal offer letter issued by Dah Chong Hong, Limited, Honest Motors, Limited, Reliance Motors, Limited and Premium Motors Limited, all being direct or indirect wholly-owned subsidiaries of the Company, as co-subtenant ("Sub-Tenants") in respect of the leasing of Portion B of Shops Nos. 1-41 on the Ground Floor of the Podium of Admiralty Centre, 18 Harcourt Road, Hong Kong from 8 June 2018 to 17 May 2021 (both days inclusive) at monthly rental of HK$990,000 ("2018 Tenancy Renewal Offer").

The expected maximum amounts (including rentals, management fees and air conditioning charges) payable by the Sub-Tenants to MHK for the financial year ended 31 December 2018 and each of the financial years ending 31 December 2019, 2020 and 2021 is HK$13.8 million, HK$13.8 million, HK$13.8 million and HK$5.3 million, respectively. The aggregate amount paid by the Sub-Tenants to MHK under the 2018 Tenancy Renewal Offer during the year was approximately HK$11.9 million which did not exceed the capped amount.

MHK is a direct wholly-owned subsidiary of MCML, which in turn an indirect non-wholly owned subsidiary of CITIC Limited, the controlling shareholder of the Company. Since MHK is an indirect non-wholly owned subsidiary of CITIC Limited, it is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2018 Tenancy Renewal Offer constituted continuing connected transactions of the Company.

Details of these continuing connected transactions were set out in the announcement of the Company dated 13 June 2018.

(c) On 29 October 2018, DCH Auriga entered into a tenancy agreement with Famous Land, pursuant to which DCH Auriga would rent the whole of Wyler Centre I, comprising, inter alia, the following premises ("2018 Wyler Centre Tenancy Agreement"), for an initial term of nine years commencing from 1 January 2019 and expiring on 31 December 2027 (both days inclusive) with an option for DCH Auriga to renew for three years commencing from 1 January 2028 and expiring on 31 December 2030.

Premises	**Relevant Period**	**Monthly Rental** HK$
Unit A on Ground Floor, 1st Floor, 2nd Floor, 3rd Floor, 4th Floor, 7th Floor, 9th Floor, 10th Floor, 11th Floor and other parts of Wyler Centre I (but excludes Units B1 and B2, 5th Floor, 6th Floor and 8th Floor, the common parts, a portion of the roof and a portion of the ground floor) and 2nd Floor, Sprinkler Tank (Wyler Centre I area) of Wyler Centre II which serves exclusively	1.1.2019–31.12.2021	3,248,118
6th Floor and 8th Floor	1.3.2019–31.12.2021	645,935
Unit B2 on Ground Floor	1.3.2019–31.12.2021	57,515
Unit B1 on Ground Floor	1.5.2019–31.12.2021	96,053
5th Floor	1.6.2019–31.12.2021	392,968

The 2018 Wyler Centre Tenancy Agreement was subject to the approval by the shareholders other than associates of CITIC Limited ("Independent Shareholders") at the general meeting held on 14 December 2018 ("General Meeting") by way of poll approving the 2018 Wyler Centre Tenancy Agreement and the transactions contemplated thereunder and the expected annual maximum amounts payable by DCH Auriga under the 2018 Wyler Centre Tenancy Agreement ("Wyler Centre Proposed Caps").

The Wyler Centre Proposed Caps for each of the financial years ending 31 December 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026 and 2027 is HK$51.0 million, HK$55.0 million, HK$55.0 million, HK$68.0 million, HK$68.0 million, HK$68.0 million, HK$85.0 million, HK$85.0 million and HK$85.0 million, respectively.

At the General Meeting, the 2018 Wyler Centre Tenancy Agreement and the transactions contemplated thereunder and the Wyler Centre Proposed Caps were approved by the Independent Shareholders.

Details of these continuing connected transactions were set out in the announcement of the Company dated 29 October 2018.

2. To continue to maintain the balance of bank deposits with China CITIC Bank Corporation Limited ("CITIC Bank", a non-wholly owned subsidiary of CITIC Limited and therefore a connected person of DCH) on normal commercial terms in the ordinary course of business, and to enable the Group to make use of the RMB cross border cash pooling services and other banking services of CITIC Bank in the coming years, on 29 December 2017, DCH entered into a master agreement with CITIC Bank setting out the maximum balances of bank deposits (including any interests accrued thereon) in aggregate maintained by the Group with CITIC Bank on any given day for each of the years ended 31 December 2018 and ending 31 December 2019 and 2020 would not exceed RMB240.0 million.

   In 2018, the maximum aggregate balance of bank deposits maintained by the Group with CITIC Bank totalled approximately RMB3.3 million, which did not exceed the capped amount on any given day.

   Details of these continuing connected transactions were set out in the announcement of the Company dated 29 December 2017.

3. On 30 August 2018, the Company entered into a master agreement ("CP Master Agreement") with CITIC Pacific in respect of the sale of food and fast moving consumer goods, healthcare and electronic products distributed under the Group's consumer products business (collectively "Consumer Products") by the Group to CITIC Pacific together with its subsidiaries (exclude the Group) and associates from time to time (collectively "CITIC Pacific Group") for the period from the date of the CP Master Agreement to 31 December 2020.

   The annual cap for the period from the date of the CP Master Agreement to 31 December 2018 and for each of the two years ending 31 December 2019 and 2020 is HK$41.0 million, HK$67.0 million and HK$77.0 million, respectively. The aggregate amount recorded for the sale of the Consumer Products by the Group to CITIC Pacific Group under the CP Master Agreement during the period from the date of the CP Master Agreement to 31 December 2018 was approximately HK$4.3 million which did not exceed the capped amount.

   Details of these continuing connected transactions were set out in the announcement of the Company dated 30 August 2018.

4. On 5 October 2018, the Company entered into a master agreement ("IRS Master Agreement") with CITIC Pacific in respect of the provision of the services including supply and / or installation of electrical home appliances for property development projects (collectively "Installation Related Services") by the Group to CITIC Pacific Group for the period from the date of the IRS Master Agreement to 31 December 2020.

   The annual cap for the period from the date of the IRS Master Agreement to 31 December 2018 and for each of the two years ending 31 December 2019 and 2020 is HK$8.0 million, HK$33.0 million and HK$70.0 million, respectively. The aggregate amount recorded for the provision of Installation Related Services by the Group to CITIC Pacific Group under the IRS Master Agreement during the period from the date of the IRS Master Agreement to 31 December 2018 was approximately HK$1.2 million which did not exceed the capped amount.

   Details of these continuing connected transactions were set out in the announcement of the Company dated 5 October 2018.

5. On 21 December 2018, the Company entered into a master agreement ("CITIC Telecom Master Agreement") with CITIC Telecom International Holdings Limited ("CITIC Telecom"), pursuant to which the Company engaged CITIC Telecom together with its subsidiaries from time to time (collectively "CITIC Telecom Group") to provide virtual private network services and internet access services to the Group for 3 years from 1 January 2019 to 31 December 2021.

   The annual cap for each of virtual private network services and internet access services are as follows:

	Annual Caps		
	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
Virtual private network services	HK$5.4 million	HK$5.6 million	HK$5.7 million
Internet access services	HK$5.3 million	HK$5.8 million	HK$6.0 million

   CITIC Telecom is a subsidiary of CITIC Limited, which is a controlling shareholder of the Company and is therefore a connected person of the Company under Rule 14A.07 of the Listing Rules. Therefore, the provision of virtual private network services and the internet access services by CITIC Telecom constituted continuing connected transactions for the Company.

   Details of these continuing connected transactions were set out in the announcement of the Company dated 21 December 2018.

REVIEW OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above non-exempt continuing connected transactions (the "Transactions") and are of the opinion that the Transactions have been entered into:

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

(b) on normal commercial terms or better; and

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 50 to 54 of the 2018 Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter will be provided by the Company to the Stock Exchange.

CONTRACTUAL ARRANGEMENTS

The Group has been conducting its PRC operations in industries that were subject to foreign ownership restrictions through various companies incorporated in the PRC (the "OPCOs"), which are owned by persons with the legal capacity under PRC regulations to be shareholders (the "Registered Owners") for the benefit of the Group by virtue of a series of contractual arrangements (the "Contractual Arrangements"). The Contractual Arrangements were designed specifically to confer upon the Group the following rights and benefits:

(i) the right to enjoy all the economic benefits of the OPCOs, to exercise management control over the operations of the OPCOs, and to prevent leakages of assets and values to shareholders of the OPCOs; and

(ii) the right to acquire, if and when permitted by the PRC law, the equity interests in the OPCOs at nil consideration or at a nominal value.

The written documentation for the Contractual Arrangements have been signed by the relevant members of the Group and the relevant Registered Owners to record the arrangements as implemented and exercised by the parties since the establishment or acquisition of the OPCOs. Apart from being shareholders of the OPCOs, some of the Registered Owners also act as directors or legal representatives of the OPCOs or are directors of other subsidiaries of the Company, and therefore such Contractual Arrangements would technically constitute connected transactions of the Company and, unless an exemption is available under the Listing Rules, must comply with the applicable announcement, reporting and independent shareholders' approval requirements of Chapter 14A of the Listing Rule.

Details of the Contractual Arrangements in place during the year ended 31 December 2018 are set out below:

	Name of OPCO	Date of Establishment of OPCO	Registered Capital (Note iv) RMB million	Name of Registered Owner(s) / Owner(s) and Shareholding	Amount of Loan Advanced under the Contractual Arrangements Agreement(s) RMB million	Name of OPCO Interest Beneficiary (Note v)	Group's Attributable Interests
1	上海宏圖電器有限公司 (Shanghai Vision Electrical Appliances Co., Ltd.) (Note i)	14.12.2000	1	上海大昌行經貿有限公司 (Shanghai Dah Chong Hong Trading Ltd.) (80%) 嚴夢英 (Yan Mengying) (20%)	– 0.2	Dah Chong Hong (China) Limited	100%
2	廣州駿佳凌志汽車銷售服務有限公司 (Guangzhou Junjia Lexus Motors Sale and Service Limited)	24.3.2004	30	廣州駿安貿易有限公司 (Guangzhou Junan Trading Limited) (55%)	16.5	Profit Paradise Investments Limited	27.5% (Note ii)
3	廣州市廣保汽車維修有限公司 (Guangzhou Guangbao Motor Service Station Limited)	5.7.2011	0.3	胡麗紅(Hu Lihong) (100%)	0.3	廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited)	49% (Note iii)

Notes:

i. The company was dissolved during the year.

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

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

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

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

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

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the terms of the subsisting Contractual Arrangements remained unchanged, (ii) the transactions carried out during the year remained consistent with the relevant provisions of the Contractual Arrangements as disclosed in the Prospectus, (iii) dividends declared by OPCOs for the year ended 31 December 2018 have been paid to the Company's relevant subsidiary and not to the Registered Owner(s) and (iv) no new Contractual Arrangement was entered into during the year.

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

EQUITY-LINKED ARRANGEMENTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Prior to joining the Company, Mr Lai Ni Hium ("Mr Lai"), an executive Director, was an executive director of China Resources Beer (Holdings) Company Limited ("CRBC"). He remains as a non-executive director of CRBC. He holds less than 0.01% interest in CRBC. CRBC and its subsidiaries is primarily a beer business.

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

SHARE OPTION SCHEME

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

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

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

c. The maximum number of shares over which share options may be granted under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of (i) the shares of the Company in issue immediately following the commencement of dealings in the Company's shares on the Stock Exchange or (ii) the shares of the Company in issue from time to time, whichever is the lower. As at 26 February 2019, the maximum number of shares available for issue under the Scheme is 141,450,000, representing approximately 7.499% of the issued shares of the Company. Share options lapsed in accordance with the terms of the Scheme or any other schemes of the Company will not be counted for the purpose of calculating the 10% limit.

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

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

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

g. The subscription price determined by the Board will not be less than whichever is the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant.

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

During the period between the adoption of the Scheme and its expiry, the Company has granted the following share options:

Date of grant	**Number of share options**	**Exercise period**	**Exercise price per share** HK$
7.7.2010	23,400,000	7.7.2010–6.7.2015	4.766
8.6.2012	24,450,000	8.6.2013–7.6.2017*	7.400
30.4.2014	28,200,000	30.4.2015–29.4.2019*	4.930

* Subject to a vesting scale

The share options granted on 7 July 2010 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 share options granted will vest on the first anniversary of the date of grant. A further 25% will vest on the second anniversary of the date of grant and the remaining 50% of the share options granted will vest on the third anniversary of the date of grant. The vested options are exercisable in whole or in part within 5 years from the date of grant. The closing price of the shares of the Company immediately before the grant on 30 April 2014 was HK$4.91 per share. The remaining contractual life of the share options is 0.3 years.

During the year ended 31 December 2018, 1,900,000 share options under the Scheme were lapsed, none of the share options under the Scheme were exercised and cancelled.

A summary of the movements of the share options under the Scheme during the year ended 31 December 2018 is as follows:

1. Directors

Name of Director	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2018	Granted during the year ended 31.12.2018	Reclassification	Lapsed / cancelled during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018	Approximate percentage to the number of issued shares
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	0.048%

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

Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2018	Granted during the year ended 31.12.2018	Reclassification	Lapsed / cancelled during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018	Approximate percentage to the number of issued shares
30.4.2014	30.4.2015–29.4.2019	4.93	9,350,000 (Note 3)	–	(850,000) (Note 4)	(1,900,000)	–	6,600,000	0.350%

3. Others (Note 1)

Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2018	Granted during the year ended 31.12.2018	Reclassification	Lapsed / cancelled during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018	Approximate percentage to the number of issued shares
30.4.2014	30.4.2015–29.4.2019	4.93	11,250,000 (Note 3)	–	2,300,000 (Notes 2 & 4)	–	–	13,550,000	0.718%

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. 850,000 share options (granted on 30 April 2014) were reclassified to "Others", subsequent to certain employees having retired during the year ended 31 December 2018.

UPDATE ON DIRECTORS' INFORMATION

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

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

Name of executive Director	**Monthly salary commencing in January 2019 HK$**	Monthly salary commencing in January 2018 HK$
Lai Ni Hium	**428,480**	416,000
Lau Sei Keung (Note iv)	**N / A**	254,600
Lee Tak Wah	**265,650**	231,000
Fung Kit Yi, Kitty	**270,380**	262,500

Notes:

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

ii. The discretionary bonus of the executive Directors continues to be subject to the performance of DCH and the individual for the year ending 31 December 2019.

iii. For information regarding the full details of Directors' remuneration for the year ended 31 December 2018, please refer to note 9 to the financial statements.

iv. Mr Lau Sei Keung retired as Director of the Company with effect from 1 April 2018.

(2) Mr Zhang Jijing, a non-executive Chairman, ceased to be president of CITIC Pacific with effect from 1 January 2019.

(3) Mr Woo Chin Wan, Raymond, an independent non-executive Director, ceased to be an independent non-executive director of Great Wall Pan Asia Holdings Limited (listed on the Stock Exchange) with effect from 26 November 2018, and was appointed as an independent non-executive director of Lenovo Group Limited (listed on the Stock Exchange) with effect from 22 February 2019.

DIRECTORS' INTERESTS IN SECURITIES

The interests of the Directors in shares of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 31 December 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 Personal interests	Approximate percentage to the number of issued shares
Lai Ni Hium	740,928	0.039%
Lee Tak Wah	100,000	0.005%
Fung Kit Yi, Kitty	698,531	0.037%

2. Shares in Associated Corporations

(a) CITIC Telecom International Holdings Limited

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

(b) China CITIC Bank Corporation Limited

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

3. Share Options in the Company

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

4. Shares Options in Associated Corporation

CITIC Telecom International Holdings Limited

Name of Director	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Balance as at 1.1.2018	Granted during the year ended 31.12.2018	Lapsed / cancelled during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018	Approximate percentage to the number of issued shares
Fei Yiping	24.3.2017	24.3.2018–23.3.2023	2.45	500,000	–	–	–	500,000	
	24.3.2017	24.3.2019–23.3.2024	2.45	500,000	–	–	–	500,000	
				1,000,000				1,000,000	0.028%

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

Save as disclosed above, as at 31 December 2018, none of the Directors had nor were they taken to or deemed to have, under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations or any interests which were required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the interests of the substantial shareholders, other than the Directors or their respective associate(s), in the shares of the Company as recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO were as follows:

Name	Number of shares of the Company	Approximate percentage to the number of issued shares
CITIC Group Corporation	1,074,477,918	56.97%
CITIC Limited	1,074,477,918	56.97%
CITIC Pacific Limited	1,074,477,918	56.97%
Davenmore Limited	1,065,580,303	56.50%
Colton Pacific Limited	837,698,195	44.42%
Chadacre Developments Limited	256,356,366	13.59%
Ascari Holdings Ltd.	227,882,108	12.08%
Cornaldi Enterprises Limited	99,694,095	5.29%

Ascari Holdings Ltd. was deemed to be interested in 227,882,108 shares through Silver Ray Enterprises Inc. as to 58,443,544 shares, Grogan Inc. as to 84,719,282 shares and Greenlane International Holdings Inc. as to 84,719,282 shares.

Colton Pacific Limited beneficially held 396,195,688 shares and was deemed to be interested in 441,502,507 additional shares held by Chadacre Developments Limited as to 256,356,366 shares, Cornaldi Enterprises Limited as to 99,694,095 shares, Corton Enterprises Limited as to 56,967,964 shares, Dashing Investments Limited as to 14,242,041 shares and Karaganda Limited as to 14,242,041 shares.

Davenmore Limited was deemed to be interested in 1,065,580,303 shares as Colton Pacific Limited and Ascari Holdings Ltd. were its wholly-owned subsidiaries.

CITIC Pacific was deemed to be interested in 1,074,477,918 shares through its direct wholly-owned subsidiary, Davenmore Limited as to 1,065,580,303 shares and its indirect wholly-owned subsidiary, Hainsworth Limited as to 8,897,615 shares.

CITIC Limited was deemed to be interested in 1,074,477,918 shares through its direct wholly-owned subsidiary, CITIC Pacific.

CITIC Group Corporation was deemed to be interested in 1,074,477,918 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.

SHARES ISSUED

Details of the shares of the Company issued during the year are set out in note 30 to the financial statements.

The shares issued during the year were in lieu of cash dividends for final dividend declared for the year ended 31 December 2017 and in lieu of cash dividends for interim dividend declared for the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2018. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year ended 31 December 2018.

SERVICE CONTRACTS

As at 31 December 2018, there were no service contracts which were not determinable by the employer within 1 year without payment of compensation (other than statutory compensation) between any company in the Group and any Director proposed for re-election at the 2019 AGM.

PERMITTED INDEMNITY PROVISION

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

AUDITOR

The financial statements for the year have been audited by KPMG who will retire at the 2019 AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-election of KPMG as auditor of the Company is to be proposed at the 2019 AGM.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2018.

By order of the Board

Zhang Jijing
Chairman

Hong Kong, 26 February 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

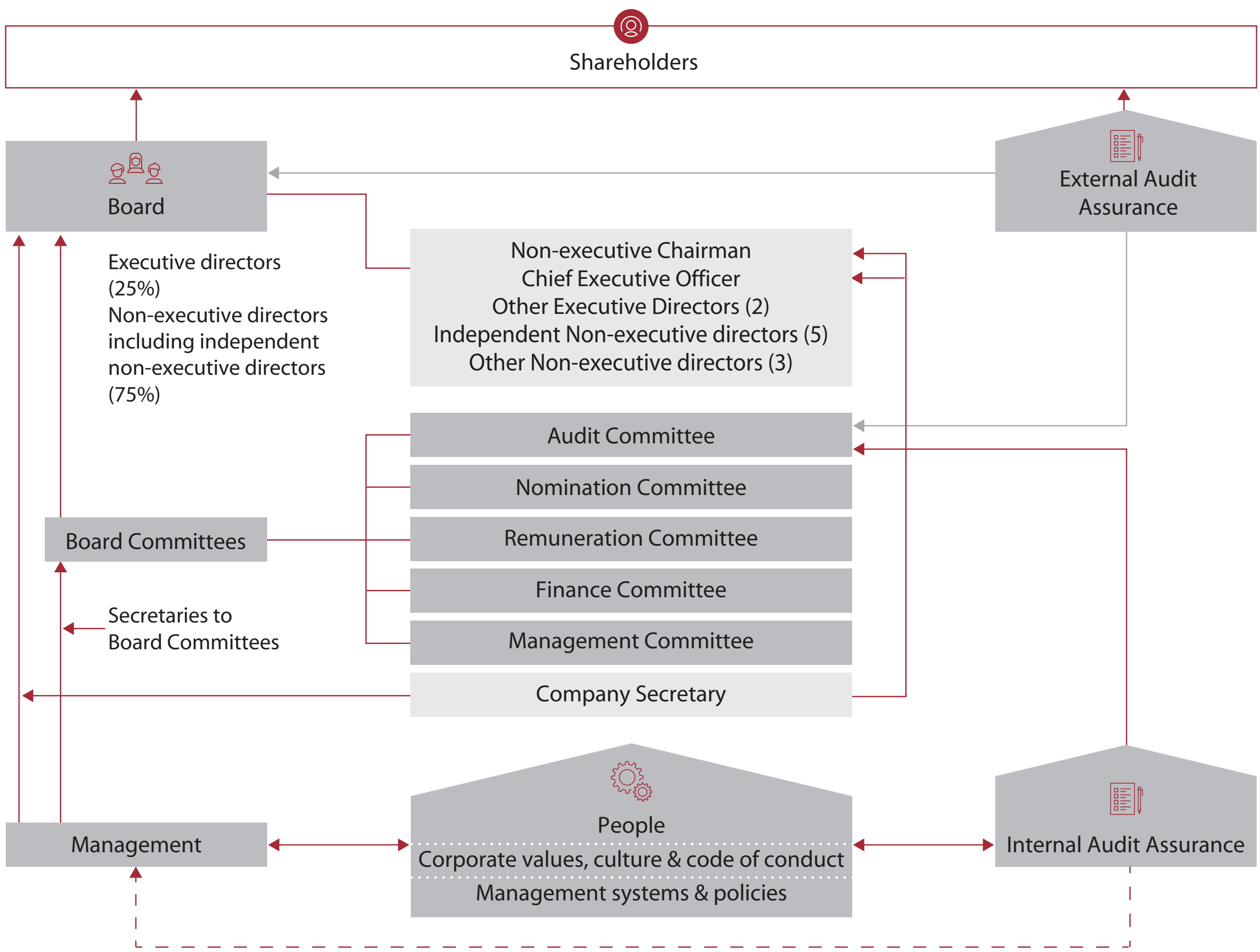
Dah Chong Hong Holdings Limited (the "Company") is committed to maintaining high standards of corporate governance. The board (the "Board") of directors (the "Directors") of the Company believes that good corporate governance practices are important to promote investor confidence and protect the interest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

Throughout the year 2018, DCH has applied the principles and complied with all code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

CORPORATE GOVERNANCE STRUCTURE

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



BOARD OF DIRECTORS

Overall Accountability

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

During the year, the Board has performed a self-evaluation of its performance and reviewed the contribution required from a Director to perform his or her responsibilities.

All Directors have confirmed that they have given sufficient time and attention to the affairs of DCH for the year. The Board is of the view that it operates effectively as a whole.

In addition, Directors have disclosed to the Company in a timely manner their other commitments, such as directorships in other public listed companies and major appointments with an indication of the time involved as well as any subsequent changes.

Board Diversity

The Board adopted a board diversity policy on 14 August 2013 (the "Board Diversity Policy"). The Board Diversity Policy sets out the approach to achieve diversity on the Board which includes and makes good use of the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective function of the Board as a whole. The Company believes that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The nomination committee discusses and agrees annually the relevant measurable objectives that the Board has set for implementing Board Diversity Policy and makes recommendations to the Board for adoption. The nomination committee also monitors the implementation of the Board Diversity Policy and reports to the Board on the achievement of the measurable objectives for achieving diversity under this Board Diversity Policy.

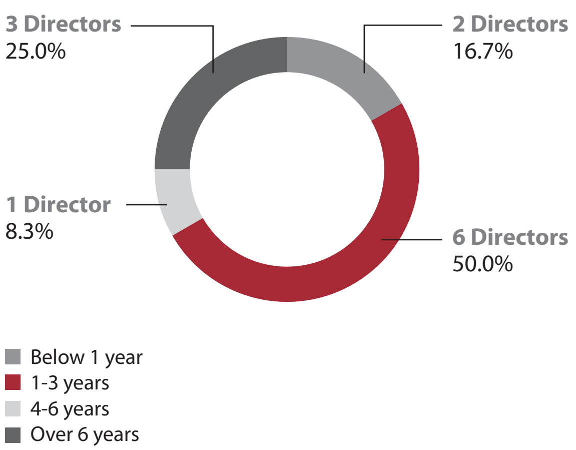
Board appointment has been, and will continue to be, made based on attributes that complement and expand the skill set, experience and expertise of the Board as a whole, taking into account gender, age, professional experience and qualifications, cultural and educational background, and any other factors that the Board may consider relevant and applicable from time to time towards achieving a diverse Board.

The members of the Board come from a variety of different backgrounds and have a diverse range of business, financial services and professional experience.

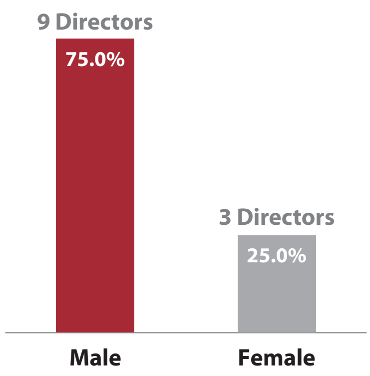
The Board Diversity Policy is available on the website of the Company.

The following charts show the diversity profile of the Board as at 31 December 2018:

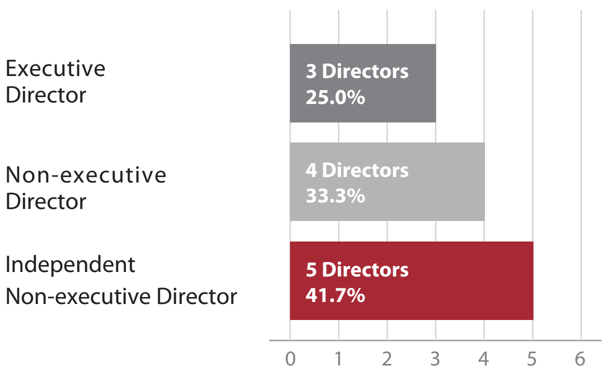
Length of Service



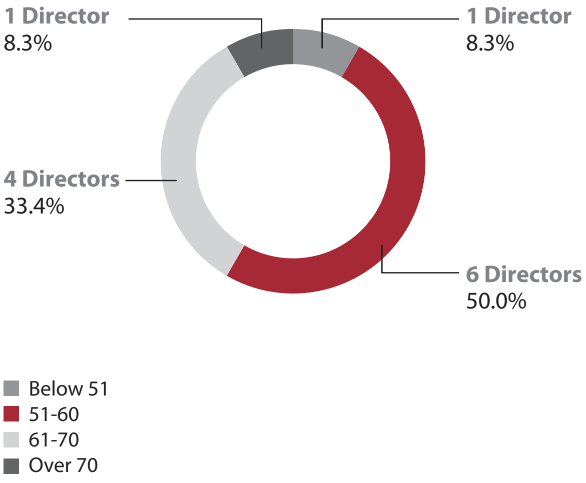
Gender



Designation



Age



Nomination Policy

The Board adopted a nomination policy (the "Nomination Policy") in December 2018 which sets out the nomination procedures and the process and criteria adopted to guide the nomination committee to select and recommend candidates for directorship so as to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The nomination committee will identify and nominate qualified individuals for appointment as additional Director(s) or to fill vacancies as and when they arise. The criteria adopted by the nomination committee in considering each individual shall include (i) reputation for integrity, (ii) accomplishment and experience that are relevant to the Company's business and corporate strategy, (iii) commitment to devote adequate time to discharge his / her duties, (iv) requirement for the Board to have independent non-executive Directors in accordance with the Listing Rules and the proposed candidate should comply with the independence guidelines set out in the Listing Rules, (v) the Board Diversity Policy and any measurable objectives adopted by the nomination committee; (vi) any potential / actual conflicts of interest that may arise, and (vii) other factors to be considered by nomination committee as it deems fit.

The nomination committee identifies and selects candidates with or without assistance from external independent professionals or the Company, based on the criteria of reputation, skills, experience as well as Board Diversity Policy and any measurable objectives adopted by nomination committee. It makes recommendation to the Board on appointment. The Board deliberates and decides on the appointment. All appointment should be confirmed by letter of appointment setting out the key terms and conditions of appointment and is subject to retirement by rotation at least once every three years and re-election at the annual general meeting in accordance with the Article 104 (A) of the Articles of Association of the Company.

Under the Nomination Policy, the nomination committee will make recommendation to the Board on the appointment of Directors and succession planning for Directors, the Chairman and Chief Executive Officer.

Board Composition and Changes

The Company announced the following changes in board composition:

1. On 1 April 2018:

    (a) Mr Lau Sei Keung retired as an executive Director ("ED") of the Company and ceased to be a member of both the finance committee and the management committee;

    (b) Mr Hsu Hsung, Adolf, resigned as an independent non-executive Director ("INED") of the Company and ceased to be the chairman of the remuneration committee, a member of both the audit committee and nomination committee;

    (c) Professor Yeung Yue Man, resigned as an INED of the Company and ceased to be a member of the audit committee, remuneration committee and nomination committee;

    (d) Ms Zhang Lijun and Mr Cheng Jinglei were appointed as INEDs of the Company, a member of the audit committee, nomination committee and remuneration committee;

    (e) Mrs Chan Hui Dor Lam, Doreen was appointed as the chairman of the remuneration committee; and

2. Mr Yin Ke was appointed as a non-executive director ("NED") of the Company and a member of the nomination committee with effect from 9 October 2018.

As at the date of this report, the Board comprises 3 EDs, 4 NEDs and 5 INEDs. NEDs (including INEDs) comprise 75% of the Board, of which INEDs satisfy the requirement of representing at least one-third of the Board. The Company believes that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirement of DCH's business.

In relation to the 4 NEDs who are not independent (as considered by the Stock Exchange), Mr Zhang Jijing is the chairman of CITIC Pacific Limited ("CITIC Pacific", a controlling shareholder of the Company); Mr Yin Ke is the vice chairman and a director of CITIC Pacific, Mr Kwok Man Leung is the executive vice president and a director of CITIC Pacific and Mr Fei Yiping is a director and the chief financial officer of CITIC Pacific.

The Company complied with the Listing Rules requirement that at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise. The nomination committee has assessed the independence of the INEDs and the Company considers that all INEDs are independent. A confirmation of his / her independence was received from each INED pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules.

Brief biographical particulars of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

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

Board Responsibilities and Delegation

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

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

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

The Company has arranged Directors & Officers Liability and Company Reimbursement Insurance for its Directors and officers with a combined aggregate limit of liability of HK$500 million. In addition, each Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he / she may sustain or incur in or about the execution of the duties of his / her office or otherwise in relation thereto in accordance with the Articles of Association of the Company.

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

Board Meetings and Attendance

The Board meets regularly at least four times a year to review financial and operating performance of DCH and to discuss the business activities, future strategy and development. Management is invited to join the Board meetings, where appropriate, to provide information to the Board to enable the Board to make informed decisions. Where queries are raised by the Directors, prompt and full responses will be given if possible. Four Board meetings were held in 2018. At the Board meetings, the Board reviewed significant matters including DCH’s annual and interim financial statements, annual budget, proposals for interim and final dividends, annual report and interim report, and notifiable transaction and connected transactions. Throughout the year, Directors also participated in the consideration and approval of routine and operational matters of the Company by way of written resolutions with supporting background and explanatory materials as and when required. All minutes of the Board meetings / written resolutions are kept at the company secretary’s office. The minutes / written resolutions are available to all Directors for inspection.

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

A schedule of Board meetings dates is fixed for each year in advance. At least 14 days’ formal notice of all regular Board meetings is given to all Directors and all Directors are given the opportunity to include matters for discussion in the agenda. The agenda and Board papers for each meeting are sent to all Directors at least 3 days in advance of every regular Board meeting.

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

The attendance record of each Director at Board meetings, the annual general meeting of the Company held on 23 May 2018 ("2018 AGM") and the general meeting held on 14 December 2018 ("GM") is set out below:

	Attendance / Number of Meetings		
Name of Directors	**Board Meeting**	**2018 AGM**	**GM**
Non-executive Chairman			
Mr Zhang Jijing	4/4	1/1	1/1
Executive Directors			
Mr Lai Ni Hium	4/4	1/1	1/1
Mr Lee Tak Wah	4/4	1/1	1/1
Ms Fung Kit Yi, Kitty	4/4	1/1	1/1
Mr Lau Sei Keung *(retired on 1 April 2018)*	1/1	N/A	N/A
Non-executive Directors			
Mr Yin Ke *(appointed on 9 October 2018)*	1/1	N/A	1/1
Mr Kwok Man Leung	4/4	1/1	0/1
Mr Fei Yiping	4/4	1/1	0/1
Independent Non-executive Directors			
Mr Chan Kay Cheung	4/4	1/1	1/1
Mrs Chan Hui Dor Lam, Doreen	4/4	1/1	1/1
Mr Woo Chin Wan, Raymond	4/4	1/1	1/1
Ms Zhang Lijun *(appointed on 1 April 2018)*	3/3	1/1	1/1
Mr Cheng Jinglei *(appointed on 1 April 2018)*	3/3	1/1	1/1
Mr Hsu Hsung, Adolf *(resigned on 1 April 2018)*	1/1	N/A	N/A
Professor Yeung Yue Man *(resigned on 1 April 2018)*	1/1	N/A	N/A

The Company's external auditor also attended the 2018 AGM.

Mr Kwok Man Leung and Mr Fei Yiping (both NEDs) were not able to attend the GM to approve the continuing connected transactions for which they abstained from voting in the board resolutions due to pre-arranged overseas business engagements which could not be rescheduled.

Chairman and Chief Executive Officer

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

Company Secretary

The appointment and removal of the company secretary is subject to Board approval. Whilst the company secretary reports to the Chairman and the Chief Executive Officer, all members of the Board have access to the advice and service of the company secretary. The company secretary of the Company has complied with the training requirements during the year ended 31 December 2018.

Directors' Continuous Professional Development ("CPD") Programme

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

In addition, every newly appointed Director is provided with a package comprising the induction materials such as the duties and responsibilities of Directors under the Listing Rules and the Companies Ordinance, guidelines for Directors issued by the Companies Registry of Hong Kong, legal and other regulatory requirements and the governance policies of the Company. During the year, Ms Zhang Lijun and Mr Cheng Jinglei were appointed as INEDs and Mr Yin Ke was appointed as NED. The Company has arranged briefings given by external legal counsel to the new Directors.

Under the Company's CPD Programme, the Board visited the Logistics Centre in Hengqin, a 4S shop in Jiangmen, a Logistic Centre in Xinhui including CJ Dumplings Production Plant, Pocari Ostuka Production Facilities, Lubritech Refining Facilities and Ferrero Co-packing Facilities in November 2018. Directors received monthly business updates provided by management. During the year, the Company has arranged a seminar conducted by PricewaterhouseCoopers for the Directors. Reading materials were provided to Directors on the latest developments or updates in corporate governance practices and relevant legal and regulatory developments. Directors also attended self-directed courses and seminars. A record of the Directors' participation in the CPD Programme is kept with the company secretary.

A summary of Directors' participation in the Company's CPD Programme for the period from 1 January 2018 to 31 December 2018 is as follows:

Name of Directors	Type of CPD Programme(Keys)
Non-executive Chairman	
Mr Zhang Jijing	A, B, C, D, E
Executive Directors	
Mr Lai Ni Hium	A, B, C, D, E
Mr Lee Tak Wah	A, B, C, D, E, F
Ms Fung Kit Yi, Kitty	A, B, C, D, E
Non-executive Directors	
Mr Yin Ke *(appointed on 9 October 2018)*	A, B, C, D, E, F
Mr Kwok Man Leung	A, B, C, D, E, F
Mr Fei Yiping	A, B, C, D, E
Independent Non-executive Directors	
Mr Chan Kay Cheung	A, B, C, D, E
Mrs Chan Hui Dor Lam, Doreen	A, B, C, D, E, F
Mr Woo Chin Wan, Raymond	A, B, C, D, E, F
Ms Zhang Lijun *(appointed on 1 April 2018)*	A, B, C, D, E
Mr Cheng Jinglei *(appointed on 1 April 2018)*	A, B, C, D, E

Keys:

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

Mr Lau Sei Keung retired as ED and Mr Hsu Hsung, Adolf and Professor Yeung Yue Man resigned as INEDs on 1 April 2018. Reading materials, regulatory updates and management monthly updates were provided to them during the period of their appointment.

BOARD COMMITTEES

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

Audit Committee

The audit committee acts on behalf of the Board in providing oversight of DCH's financial reporting, annual audit and interim review, risk management, internal control as well as corporate governance. It currently consists of 5 INEDs who possess the relevant business and financial management experience and skills. It is chaired by Mr Woo Chin Wan, Raymond, an INED, with Mr Chan Kay Cheung, Mrs Chan Hui Dor Lam, Doreen, Ms Zhang Lijun (appointed on 1 April 2018) and Mr Cheng Jinglei (appointed on 1 April 2018) as members. Mr Hsu Hsung, Adolf and Professor Yeung Yue Man ceased to be members of audit committee with effect from 1 April 2018. Mr Woo Chin Wan, Raymond has relevant professional qualifications and expertise in financial reporting matters.

The audit committee holds three meetings each year with the Company's Chief Financial Officer, the external and internal auditors. By invitation of the audit committee, other Directors and senior executives may also attend the meetings. The audit committee chairman and other committee members also meet in separate private sessions with the external auditor without the presence of management.

Duties of the Audit Committee

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

Under its terms of reference, the audit committee shall:

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

Committee Composition and Attendance

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

Membership and Attendance

Members	**Attendance / Number of Meetings**
Independent Non-executive Directors	
Mr Woo Chin Wan, Raymond *(chairman)*	3/3
Mr Chan Kay Cheung	3/3
Mrs Chan Hui Dor Lam, Doreen	3/3
Ms Zhang Lijun *(appointed on 1 April 2018)*	2/2
Mr Cheng Jinglei *(appointed on 1 April 2018)*	2/2
Mr Hsu Hsung, Adolf *(ceased to be a member on 1 April 2018)*	1/1
Professor Yeung Yue Man *(ceased to be a member on 1 April 2018)*	1/1
Other Attendees	
Chief Financial Officer – Ms Fung Kit Yi, Kitty	3/3
Internal Auditor	3/3
External Auditor	3/3

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

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

Work Done in 2018

During 2018, the work done by the audit committee included:
- review of the interim and annual financial statements, particularly judgemental areas, before submission to the Board;
- review of the checklists for compliance with statutory and Listing Rules requirements in respect of 2017 Annual Report and 2018 Interim Report for ensuring the integrity of the financial statements;
- review of external auditor’s reports to the audit committee on their statutory audit of 2017 annual financial statements and their independent review of the 2018 interim financial statements and the audit plan by external auditor;
- review of the overall audit work progress in each committee meeting, reviewed reports from internal audit on findings, recommendations, management response and progress in rectification of internal control;
- approval of internal audit’s annual audit plan for 2019;
- review of the staffing and resources of internal audit;
- review of the terms of reference of the audit committee;

- review and approval of the amendment to risk management policy to include the risk appetite statement in the risk management policy, and recommended the revised risk management policy for the approval by the Board;
- review of the adequacy and effectiveness of DCH's internal controls, including financial, operational and compliance controls and risk management and considered the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, training programmes and budget;
- recommending the re-appointment of external auditor(s) and to approve the remuneration and terms of engagement of the external auditor(s);
- approving the non-audit services provided by external auditor(s);
- identifying any significant risks that should be drawn to the attention of the Board;
- reviewing and considering any enhancement to the risk management and internal control systems;
- review of the compliance of DCH with the CG Code and disclosures of corporate governance in this report;
- review of the trainings and continuous professional development of Directors and senior management; and
- review of the whistle blowing policy, corporate governance policy, inside information / price sensitive information disclosure policy and code of conduct of the Company.

In the audit committee meeting held on 22 February 2019, the audit committee reviewed and approved the Company's audited financial statements and annual report for the year ended 31 December 2018, and considered reports from the external and internal auditors. The audit committee recommended that the Board to approve the 2018 Annual Report and audited financial statements.

Nomination Committee

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

The nomination committee reports directly to the Board and its primary functions are:
- to determine the policy for the nomination of Directors and set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship, which shall take into consideration the principle of diversity;
- to review the structure, size, composition and diversity of the Board at least annually and make recommendations on any proposed changes to the Board;
- to assess the independence of independent non-executive Directors;
- to make recommendations to the Board on the appointment or re-appointment of Directors; and
- to review the Board Diversity Policy and makes recommendations on any required changes to the Board.

The nomination committee comprises 3 NEDs and 5 INEDs. The nomination committee is chaired by Mr Zhang Jijing, the non-executive Chairman of the Board, with Mr Yin Ke (appointed on 9 October 2018), Mr Kwok Man Leung, Mr Chan Kay Cheung, Mrs Chan Hui Dor Lam, Doreen, Mr Woo Chin Wan, Raymond, Ms Zhang Lijun (appointed on 1 April 2018) and Mr Cheng Jinglei (appointed on 1 April 2018) as members. Mr Hsu Hsung, Adolf and Professor Yeung Yue Man ceased to be members of nomination committee with effect from 1 April 2018. The nomination committee meets at least annually and at such other times as it shall require. The General Manager – Group Human Resources Department ("GHR") of DCH acts as secretary of the nomination committee. The nomination committee is provided with sufficient resources enabling it to perform its duties and it can seek independent professional advice at DCH's expenses if necessary.

The committee secretary prepares full minutes of the nomination committee meetings and the draft minutes are sent to all committee members within a reasonable time after the meeting(s).

Committee Composition and Attendance

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

Membership and Attendance

Members	Attendance / Number of Meetings
Non-executive Director	
Mr Zhang Jijing *(chairman)*	1/1
Mr Yin Ke *(appointed on 9 October 2018)*	1/1
Mr Kwok Man Leung	1/1
Independent Non-executive Directors	
Mr Chan Kay Cheung	1/1
Mrs Chan Hui Dor Lam, Doreen	1/1
Mr Woo Chin Wan, Raymond	1/1
Ms Zhang Lijun *(appointed on 1 April 2018)*	1/1
Mr Cheng Jinglei *(appointed on 1 April 2018)*	1/1
Mr Hsu Hsung, Adolf *(ceased to be a member on 1 April 2018)*	N/A
Professor Yeung Yue Man *(ceased to be a member on 1 April 2018)*	N/A

Work Done in 2018

During the year, one meeting was held with full attendance by the committee members. Four sets of resolutions were passed by circular by all the committee members. The nomination committee reviewed the terms of reference of the nomination committee; reviewed the structure, size, composition and diversity of the Board; reviewed certain measurable objectives; reviewed the draft nomination policy and recommended to the Board for approval; reviewed the Board Diversity Policy of DCH and concluded all objectives were met and no change to the policy is required. It also nominated new Directors for Board approval. The nomination committee also recommended to the Board the re-election of the retiring director(s) at the general meeting / annual general meeting.

Remuneration Committee

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

The remuneration committee currently comprises 5 INEDs and 1 NED. The remuneration committee is chaired by Mrs Chan Hui Dor Lam (appointed on 1 April 2018), an INED, with Mr Chan Kay Cheung, Mr Woo Chin Wan, Raymond Ms Zhang Lijun (appointed on 1 April 2018), Mr Cheng Jinglei (appointed on 1 April 2018) and Mr Kwok Man Leung as members. Mr Hsu Hsung, Adolf, ceased to be the chairman and a member of the remuneration committee with effect from 1 April 2018. Professor Yeung Yue Man also ceased to be a member of the remuneration committee with effect from 1 April 2018. The General Manager of GHR of DCH serves as the secretary of the committee. The full terms of reference are available on the websites of the Company and the Stock Exchange.

The committee secretary prepared full minutes of the remuneration committee meetings and the draft minutes are sent to all committee members.

Committee Composition and Attendance

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

Membership and Attendance	
Members	**Attendance / Number of Meetings**
Independent Non-executive Directors	
Mrs Chan Hui Dor Lam, Doreen *(chairman)(appointed as chairman on 1 April 2018)*	3/3
Mr Chan Kay Cheung	3/3
Mr Woo Chin Wan, Raymond	3/3
Ms Zhang Lijun *(appointed on 1 April 2018)*	3/3
Mr Cheng Jinglei *(appointed on 1 April 2018)*	3/3
Mr Hsu Hsung, Adolf *(ceased to be the chairman and a member on 1 April 2018)*	N/A
Professor Yeung Yue Man *(ceased to be a member on 1 April 2018)*	N/A
Non-executive Director	
Mr Kwok Man Leung	3/3

Work Done in 2018

During the year, the remuneration committee held three meetings. The remuneration committee reviewed the remuneration policies and approved the salaries and bonuses of the EDs and senior management. The remuneration committee had also discussed the executive compensation for 2019.

DCH's remuneration policies is to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. In addition to annual reviews, special reviews are conducted to align pay packages of well-performing employees with prevailing market conditions particularly in volatile labour markets. "Pay for performance" is the key principle adopted to link rewards to the achievement of key performance indicators and motivate employees to work towards the Group's goals and objectives. Details of Directors' emoluments and retirement benefits are disclosed in notes 9 and 31 to the financial statements respectively. Remuneration payable to members of senior management by band are disclosed in note 10 to the financial statements. Details of the share option scheme and the movement of the share options during the year 2018 are disclosed under the section headed "Share Option Scheme" of the Report of the Directors.

Finance Committee

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

The finance committee currently comprises 3 EDs. Work done by the finance committee in 2018 primarily related to opening of bank accounts, approving new banking facilities, renewal of banking facilities, undertakings, provision of guarantees and other commitments with financial impact to the Group and change in bank signatories.

Management Committee

The management committee was established by the Board and as at the date of this report, the management committee comprises Chief Executive Officer, Chief Financial Officer and Chief Corporate Officer, together with the one ED and senior management appointed by the Chief Executive Officer from time-to-time. The full terms of reference were adopted on 20 August 2015 and amended on 8 March 2018. The major functions of management committee are:

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The adoption of relevant new or amendments to HKFRSs that became effective during the year has no significant impact on the Group's results of operation and financial position except for the impact caused by the adoption of HKFRS 9, *Financial Instruments* and HKFRS 15, *Revenue from contracts with customers* as disclosed in note 1(b) to the financial statements. The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2018 are set out in the Independent Auditor's Report on pages 90-95.

External Auditors and their Remuneration

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

For the year ended 31 December 2018, the fees in respect of audit and non-audit services charged to the Group by external auditors amounted to approximately HK$26 million and HK$2 million respectively. Audit services includes statutory audit and review of financial statements and completion audit for mergers and acquisitions. The non-audit services mainly consist of consultancy, taxation, and other reporting services. Detailed remuneration in respect of services provided by the external auditors is as follows:

	HK$ million
Audit services – KPMG	21
– other auditors	5
Non-audit services – KPMG	1
– other auditors	1

Internal Controls and Risk Management

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

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

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

DCH's risk management framework comprises these key elements: risk governance structure, risk assessment process and risk management reporting process.

Risk Governance Structure

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

The Group has established Risk Taskforce Committee for business sectors and key operating functions. Regular meetings are held with business sectors and key operating functions to provide oversight of the existing and emerging enterprise risks, evaluate and strengthen mitigation plans and controls. Summary of significant risks and mitigation actions for business sectors and key functions have been reported to the Audit Committee.

Risk Management Process

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

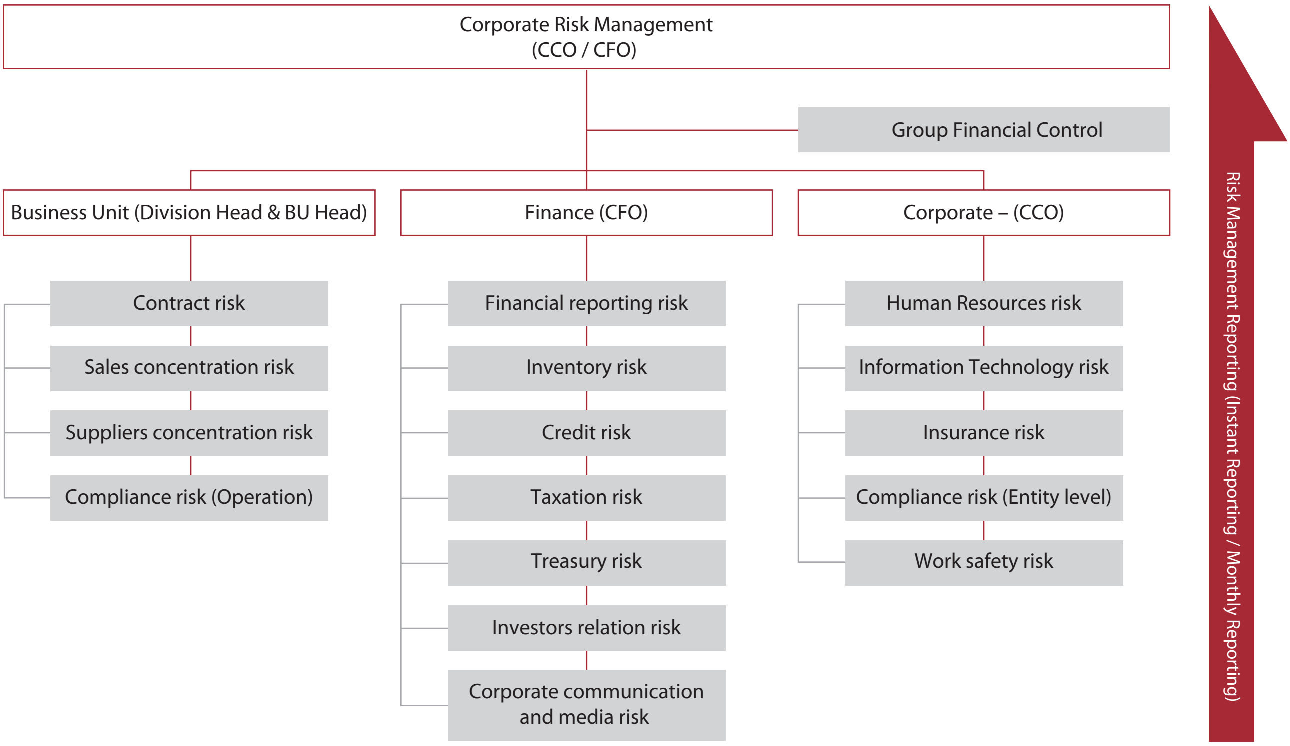
Risk assessment is conducted annually on selected business units and subsidiaries. The risk assessment mechanism is designed based on the COSO ERM framework. Risks are identified and assessed by likelihood and significance by business units and consolidated to business sector level to demonstrate top risks of the business sector.

Starting from 2018, annual fraud risk assessment is established as part of the risk management framework. The fraud risk assessment covered selected business units and corporate support functions. The assessment covered fraud risk areas such as perpetration of illegal acts or corruption, manipulation of financial information, misappropriation of assets, payment fraud, payroll fraud and contract fraud, etc.

Risk Management Reporting Process

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

The corporate risk management reporting structure is illustrated as follows:



Instant Reporting Mechanism

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

Monthly Reporting Mechanism

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

Internal Control

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

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

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

- Self-assessments were performed by management of various business units and subsidiaries of their material controls and risk management activities. Supporting documentation for the self-assessments was reviewed by Group Financial Control. The results of the self-assessments were consolidated and reviewed by the audit committee.
- Internal audits were undertaken in accordance with the annual internal audit plan as approved by the audit committee. The audit committee reviewed the audit findings, recommendations, management's response and remedial actions at each committee meeting and reported the review results where appropriate, to the Board. Self-assessments were carried out by business units and Group Finance of DCH with regards to resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programmes. The main conclusions were as follows:

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

Internal Audit

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

Authority and Accountability

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

Duties

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

Internal Audit Resources and Major Work Done in 2018

The internal audit function comprises 29 audit staff members at 31 December 2018 who are based in Hong Kong, Shanghai and Guangzhou to provide audit services to various business units and functions of the Group. During the year, IAD prepared and submitted the annual internal audit plan to the audit committee for approval, according to a risk-based audit planning approach. Pursuant to the approved annual plan, detailed audit planning for each audit, followed by field visits and discussions with management, was conducted with the use of a risk-based audit methodology. Reports to the management were prepared after completion of the audit work, and were summarised for review at each audit committee meeting. Continual follow-up work was undertaken jointly by IAD and Group Financial Control to establish the extent of completion of remedial actions taken by the management, with follow-up results, audit progress and available resources reviewed by the audit committee at each committee meeting.

In 2018, IAD issued internal audit reports to the audit committee with management responses covering various operational and functional units of the Group, including motor business, consumer products business as well as head office functions. Other tasks performed by IAD during the year include:

- Ongoing assessments of information technology controls pursuant to the annual audit plan;
- Reviews of advertising and promotion activities of the China Food business;
- Review of the 2018 risk management and internal control self-assessments of the Group, as well as management reports on adequacy, qualification, experience and training programmes of the accounting and financial reporting functions of the Group;
- Implementation of continuous training and development programmes, including quarterly sharing sessions and periodic training workshops, for all internal audit staff of IAD to enhance their audit skill sets and knowledge;
- Benchmarking the internal audit charter against the latest version of the International Professional Practices Framework issued by the Institute of Internal Auditors to ensure that the internal audit function remains in line with internationally recognised internal audit practices.

BUSINESS ETHICS

Code of Conduct

At DCH, we consider ethical corporate culture and employees' honesty and integrity to be important assets. We endeavor to comply with the laws and regulations of the countries and regions in which we operate, and all Directors and employees are required to act responsibly to ensure that the reputation of DCH is not tarnished. To uphold a high standard of integrity in all aspects of our daily business activities, the Company has adopted a code of conduct which provides employees with a set of defined ethical standards for adherence. The code of conduct is posted on the Company's intranet for reference by all staff. From time to time, the code of conduct is reviewed and fine-tuned, covering such issues as prevention of bribery, conflict of interest, acceptance of gifts and advantages, handling of confidential information and preservation of secrecy, intellectual property, and outside business or employment. ICAC is invited to give briefings on prevention of bribery and conflict of interest to the employees of the Company on a regular basis. All employees are required to strictly comply with all applicable laws and regulations and to ensure that the interest of the Company is not compromised. New employees are briefed on the rules and standards set out in the code of conduct upon joining DCH, and are required to acknowledge their understanding of the code of conduct. The heads of business units are charged with the responsibility of disseminating the code of conduct requirements to the staff concerned, and are required to report the compliance status of the code of conduct on a bi-annual basis to the General Manager of GHR. The audit committee receives reports on the execution of the code of conduct and its compliance at least once a year and, where necessary, recommendations will be made to the Board and management for implementation.

All employees are made aware of the code of conduct and are also required to acknowledge understanding of and compliance with this code of conduct. On an annual basis, all employees are also required to make formal declaration to the Company to confirm that they have complied with the code of conduct. Through communication of whistle blowing policy in the code of conduct, employees are encouraged to report suspected fraud, corruption and misconduct within the Company.

Whistle Blowing Policy

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

According to the whistle blowing policy, concerns can be raised to the Chief Corporate Officer who will solicit representatives from appropriate divisions to form a handling team to study and investigate the concerns. If the concerns are serious or related to senior staff, a review committee which consists of Chief Corporate Officer, Chief Financial Officer and Chief Executive Officer will be established to handle the case. Those who have a conflict of interest will not be included in the investigation. 5 whistle blowing instances were reported during the year. All cases were considered and investigations were made. Remedial actions were taken where appropriate. DCH strives to act responsively on any reported misconduct, malpractices or irregularities.

Inside Information / Price Sensitive Information Disclosure Policy

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

Good Employment Practices

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

Directors' and Relevant Employees' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. All Directors confirmed that they have complied with the required standard set out in the Model Code throughout 2018. The interests held by individual Directors in the Company's securities as at 31 December 2018 are set out in the section headed "Directors' Interests in Securities" in the Report of the Directors of the 2018 Annual Report.

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

COMMUNICATION WITH SHAREHOLDERS

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

Information Disclosure on Corporate Website

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

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

During 2018, the Company issued announcements in respect of one profit alert, one discloseable transaction, six continuing connected transactions, and certain changes in the composition of the board and board committees, which can be reviewed on the website of the Company.

General Meetings with Shareholders

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

Voting by Poll

Resolutions put to vote at the general meetings of the Company (other than on procedure matters) are taken by poll conducted by share registrar of the Company and scrutinised by the external auditor of the Company. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered.

The 2018 AGM was held on 23 May 2018. Businesses transacted at the 2018 AGM included the adoption of audited financial statements, the approval of final dividend, the re-election of retiring Directors, the re-appointment of auditor and the renewal of general mandates with respect to the buy-back of shares and the issue of shares.

The GM held on 14 December 2018 approved the entering into of the 2018 Wyler Centre Tenancy Agreement and the proposed caps for the nine years ending 31 December 2027 together with the re-election of a retiring Director.

All resolutions put to shareholders at the 2018 AGM and the GM were passed. The results of the voting by poll were published on the websites of the Company and the Stock Exchange respectively on the same day as the poll.

Investor Relations

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases, great care is taken to ensure that no price sensitive information is disclosed selectively. When announcements are made through the Stock Exchange, the same information will be made available on the Company's website.

Shareholder Rights

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

(a) Convening of General Meeting

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

The request –
(a) must state the general nature of the business to be dealt with at the meeting;
(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
(c) may consist of several documents in like form;
(d) may be sent in hard copy form or in electronic form to the company secretary at Company's registered office or via email at ir@ir.dch.com.hk; and
(e) must be authenticated by the person or persons making it.

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

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

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

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

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

(c) Procedures for Shareholders to Put Forward Proposals at an Annual General Meeting ("AGM")

- Circulating a resolution for an AGM
  Shareholder(s) can make a request to circulate a resolution for an AGM pursuant to Section 615 of the Companies Ordinance if they –
  (a) represent at least 2.5 per cent of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or
  (b) number at least 50 and who have a right to vote on the resolution at the AGM to which the request relates.

  The request –
  (a) may be sent in hard copy form or in electronic form to the company secretary at the Company's registered office or via email at ir@ir.dch.com.hk;
  (b) must identify the resolution of which notice is to be given;
  (c) must be authenticated by the person or persons making it; and
  (d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

- Circulating a statement at an AGM or at a general meeting
  Shareholder(s) can pursuant to Section 580 of the Companies Ordinance request the Company to circulate to shareholders entitled to receive notice of a general meeting, a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting, if such shareholder(s) –
  (a) represent at least 2.5 per cent of the total voting rights of all shareholders who have a relevant right to vote; or
  (b) number at least 50 and who have a relevant right to vote (as defined in section 580(4) of the Companies Ordinance).

  The request –
  (a) may be sent in hard copy form or in electronic form to the company secretary at the Company's registered office or via email at ir@ir.dch.com.hk;
  (b) must identify the statement to be circulated;
  (c) must be authenticated by the person or persons making it; and
  (d) must be received by the Company at least 7 days before the meeting to which it relates.

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

CONSTITUTIONAL DOCUMENTS

There were no amendments made to the constitutional documents of the Company during 2018.

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

NON-COMPETITION UNDERTAKING

CITIC Limited ("CITIC", a controlling shareholder of the Company) has executed a deed of non-competition dated 28 September 2007 in favour of the Company to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC and / or its associates (as defined under the then Listing Rules) are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC will not engage and will procure its subsidiaries (excluding the Company and its subsidiaries) not to engage in the trading and distribution of motor vehicles, food commodities, fast moving consumer goods and consumer products and provision of logistics services as then engaged in by the Company and disclosed in the prospectus dated 4 October 2007, or in any other business that may compete, directly or indirectly, with such business ("Restricted Activity"), and (ii) in the event that any opportunity is made available to CITIC to invest in any independent third party's business engaging in the Restricted Activity, CITIC will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC has reviewed the business of its group (excluding the Company and its subsidiaries) and advised that during the year 2018, their business did not compete with the Restricted Activity and there was no opportunity made available to CITIC to invest in any independent third party which was engaged in the Restricted Activity. CITIC has given a written confirmation to the Company that it has fully complied with the terms of the non-competition undertaking. The INEDs have reviewed the confirmation and concluded that CITIC has complied with the terms of the non-competition undertaking.

HUMAN RESOURCES

DIVERSITY AND EQUAL OPPORTUNITY

In alignment with our 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. We advocate the use of equal, just and transparent employment practices, and do not discriminate against gender, ethnicity, age, race, disability, skin colour or family status to ensure that each employee is treated with dignity and respect. Our employees enjoy paid leave, maternity leave, sick leave, paternity leave, public holidays and designated working and rest periods in accordance with national laws and regulations.

During the year, DCH was not aware of any non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. We resolutely prohibit the use of child and forced labour in the workplace, and enforce this by reviewing the identification of personnel in strict compliance with governing laws and regulations.

Workforce by location

Location	**2018**	2017
Mainland China	**11,484**	11,179
Hong Kong and Macao	**4,515**	4,675
Other locations	**1,597**	1,897
Total	**17,596**	17,751

TRAINING, EDUCATION AND DEVELOPMENT

Talent development and retention are fundamental to our continued success. In support of business development, we provide a wide range of internal and external training courses for our employees to enhance their individual knowledge and skillsets, transform our culture and strengthen our management capabilities. In 2018, in our Hong Kong and Macao and mainland China operating locations, more than 48,000 participants attended over 120,000 hours of training programmes focusing on leadership and management, cultural transformation, sales and services, personal effectiveness, professional knowledge, information technology, compliance and occupational health and safety. We conducted training through various means such as orientation and field trips, dialogues with the CEO, interactive workshops, forums and on-site training. To enable staff across our regions to access training programmes remotely, we continued to operate our app-based mobile learning centre and had over 9,000 activated accounts in 2018.

As a result of our dedicated efforts towards staff development during the year, we were recognised as a "Manpower Developer" by the Hong Kong Employees Retraining Board ("ERB").

EMPLOYEE BENEFITS AND WELFARE

To attract, motivate and retain talented employees, we regularly review our compensation and benefits programs to ensure that they are competitive with the external market and internally equitable among colleagues. In addition to annual reviews, mid-year reviews are conducted for selected functions and individuals in response to market and labour conditions. We also conduct special reviews to offer pay packages and promotions to employees which are commensurate with their performance. "Pay for performance" is the key principle adopted to link rewards to the achievement of key performance indicators and motivate employees to work towards the Group's goals and objectives. As a caring employer, we aim to provide benefit programs that meet employee needs, including medical, life, and personal accident insurance, pension contributions (e.g. mandatory provident fund) and staff purchase discounts.

We also understand the important relationship between employee wellness and engagement, and organise social, recreational and wellness activities for employees and their family members to enrich work and family life.

OCCUPATIONAL HEALTH AND SAFETY

At DCH, we strive to provide a safe and healthy working environment for all employees and eliminate workplace hazards which could result in injury or ill health. To this end, we have established safety management systems, which include Occupational Health and Safety ("OHS") Policies and Standard Operating Procedures for Environment, Health and Safety ("EHS"). Our Policies outline the Company's commitment to identify, assess and eliminate workplace-related dangers and the risk of accident outbreaks; provide information, training and protective equipment and facilities to ensure employees' safety; conform to all applicable local health and safety regulations; and ensure the management of OHS one of the prime responsibilities of managers at all levels. Our Standard Operating Procedures set out procedures on operational controls and regulatory compliance to ensure workers are protected from injury and illness while environmental impacts are minimised. Our safety management systems are audited on an annual basis by a third-party auditor. During the year, we were not aware of any non-compliance with laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.

INDEPENDENT AUDITOR'S REPORT

KPMG

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

OPINION

We have audited the consolidated financial statements of Dah Chong Hong Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 96 to 207, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Valuation of inventories

Refer to Note 21 to the consolidated financial statements and the accounting policies in Note 1(o).

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group held significant motor, food, healthcare and consumer products inventories with a total carrying value of HK$6,593 million. A net write-down of inventories of HK$58 million was recognised in the consolidated statement of profit or loss for the year ended 31 December 2018. Sales of these inventories can be volatile due to changing consumer demands and the current economic environment affecting consumer spending and, for the motor industry, sales can also be impacted by release of new car models as well as changes in government policies affecting the markets in which the Group operates. The Group typically sells slow-moving motor inventories at a markdown from the original price to maintain a healthy level of inventories and make room for new models in its showrooms and car centres. Accordingly, the actual future selling prices of some inventory items may fall below their costs. For food and healthcare inventories, the Group tracks their expiry dates and identifies slow-moving inventories by reviewing the inventory ageing report. The Group may reduce the original selling prices to clear out inventories before their expiry dates. Therefore, certain slow-moving inventories may have a net realisable value lower than their cost. We identified the valuation of inventories as a key audit matter because of the exercise of significant judgement by management in determining appropriate inventory provisions which involves management's assessment of the net realisable value of inventories.	Our audit procedures to assess the valuation of inventories included the following: • assessing whether the inventory provisions at the end of the reporting period were determined in a manner consistent with the Group's inventory provision policy by recalculating the inventory provisions based on the percentages and other parameters in the Group's inventory provision policy; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing category by comparing individual items with the underlying goods receipt notes; and for food and healthcare inventories, assessing the appropriate expiry date category by comparing expiry dates to the expiry information marked or tagged on the food and healthcare products; • enquiring of management about any expected changes in plans for markdowns or disposals of slow-moving or obsolete inventories and comparing their representations with actual transactions subsequent to the reporting date and assumptions adopted in determining the inventory provisions; • assessing the historical accuracy of management's estimation of inventory provisions by (1) comparing, on a sample basis, management's forecast of the sales of slow-moving inventories identified in the prior year and the estimated price markdowns to subsequent sales and (2) examining additional provisions made in respect of slow-moving inventories identified in the prior year and the utilisation or release of previously recorded inventory provisions; and • assessing the Group's inventory provision policy and the relevant disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Assessing impairment of goodwill and intangible assets

Refer to Notes 16 and 17 to the consolidated financial statements and the accounting policies in Notes 1(e), (k) and (m)(iii).

The key audit matter

The Group has significant balances of goodwill and intangible assets amounting to HK$2,667 million and HK$1,723 million respectively as at 31 December 2018. For the year ended 31 December 2018, the Group recognised impairment losses of goodwill and intangible assets amounting to HK$85 million.

Management performs impairment testing of goodwill and intangible assets when indicators of potential impairment are identified. In addition, goodwill impairment assessment is performed by management annually whether or not there is any indication of impairment.

Management performs impairment testing by using the value in use method and preparing discounted cash flow forecasts, which involves the exercise of significant management judgement and estimation, particularly in relation to forecasting revenue and operating profits, and determining the discount rates applied to estimate the net present value of the future operating cash flows.

We identified assessing impairment of goodwill and intangible assets as a key audit matter because the carrying values of these assets are material to the consolidated financial statements and because the impairment assessments prepared by management are complex and can be inherently subjective and requires significant judgement and estimation which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess the impairment of goodwill and intangible assets included the following:

- evaluating whether the Group's impairment assessment models, which included the allocation of goodwill and intangible assets to cash generating units and evaluation of indicators of impairment of intangible assets, were prepared in accordance with the requirements of the prevailing accounting standards;

- with the assistance of our internal valuation specialists, evaluating the methodology adopted by management in the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing whether the discount rates applied were within the range adopted by other companies in the same industry;

- evaluating the key assumptions adopted by management in their preparation of the discounted cash flow forecasts, including forecast revenue growth, forecast operating profits, by comparing with the financial budgets which were approved by management and taking into account our understanding, experience and knowledge of the Group's businesses and future business plans;

- comparing the key assumptions included in the discounted cash flow forecasts made in prior year with the current year's performance to assess the reliability of management's forecasting process and making enquiries of management as to the reasons for any significant variations identified;

- obtaining from management sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and

- assessing the disclosures in the consolidated financial statements in respect of the impairment assessments of goodwill and intangible assets with reference to the requirements of the prevailing accounting standards.

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
26 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

HK$ million	Note	2018	2017
Revenue	3	**50,878**	51,238
Cost of sales		**(43,953)**	(44,312)
Gross profit		**6,925**	6,926
Other net income	5	**277**	334
Net gain on disposal of subsidiaries	6	**412**	16
Selling and distribution expenses		**(3,874)**	(3,908)
Administrative expenses		**(2,135)**	(1,899)
Net impairment losses on financial assets	7(c)	**(63)**	(19)
Profit from operations		**1,542**	1,450
Finance costs	7(a)	**(230)**	(193)
Share of profit after tax of associates	18	**6**	14
Share of profit after tax of joint ventures	19	**9**	21
Profit before taxation	7	**1,327**	1,292
Income tax	8	**(380)**	(354)
Profit for the year		**947**	938
Attributable to:			
Shareholders of the Company		**820**	802
Non-controlling interests		**127**	136
		947	938
Basic and diluted earnings per share (HK cents)	12	**44.10**	43.71

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

HK$ million	Note	2018	2017
Profit for the year		**947**	938
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside Hong Kong:			
– subsidiaries		**(467)**	722
– associates and joint ventures		**(27)**	25
Effect on cash flow hedge, net of tax		**(9)**	12
Reserves released upon disposal of subsidiaries		**14**	3
Item that will not be reclassified subsequently to profit or loss:			
Revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property, net of tax	14(c)	**–**	1
Other comprehensive income for the year, net of tax	13	**(489)**	763
Total comprehensive income for the year		**458**	1,701
Attributable to:			
Shareholders of the Company		**372**	1,521
Non-controlling interests		**86**	180
		458	1,701

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

HK$ million	Note	2018	2017
Non-current assets			
Property, plant and equipment	14(a)	**4,019**	3,784
Investment properties	14(a)	**231**	229
Lease prepayments	15	**804**	858
Intangible assets	16	**1,723**	1,880
Goodwill	17	**2,667**	2,760
Interests in associates	18	**364**	214
Interests in joint ventures	19	**288**	347
Other non-current assets	20	**861**	870
Deferred tax assets	29(a)	**98**	84
		11,055	11,026
Current assets			
Inventories	21(a)	**6,593**	6,891
Asset held for sale	22	**–**	4
Debtors and other current assets	24	**8,423**	8,148
Current tax recoverable		**99**	44
Cash and bank deposits	25(a)	**1,093**	1,138
		16,208	16,225
Current liabilities			
Borrowings	26	**3,269**	2,864
Creditors and other current liabilities	27	**8,686**	8,442
Current tax payable		**137**	283
		12,092	11,589
Net current assets		**4,116**	4,636
Total assets less current liabilities		**15,171**	15,662
Non-current liabilities			
Borrowings	26	**3,702**	4,063
Other non-current liabilities	28	**177**	338
Deferred tax liabilities	29(a)	**499**	549
		4,378	4,950
Net assets		**10,793**	10,712

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2018

HK$ million	Note	2018	2017
Capital and reserves	30		
Share capital		**1,669**	1,535
Other reserves		**8,613**	8,610
Total equity attributable to shareholders of the Company		**10,282**	10,145
Non-controlling interests		**511**	567
Total equity		**10,793**	10,712

Approved and authorised for issue by the board of directors on 26 February 2019.

Zhang Jijing
Director

Lai Ni Hium
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

HK$ million	Note	Attributable to shareholders of the Company												
		Share capital (30(a))	General reserve (30(b))	Capital reserve (30(c))	Statutory surplus reserve (30(d))	Merger reserve (30(e))	Share option reserve (30(f))	Exchange fluctuation reserve (30(g))	Asset revaluation reserve (30(h))	Hedging reserve (30(i))	Retained profits	Total	Non-controlling interests	Total equity
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	1(b)(*i*)	-	-	-	-	-	-	-	-	-	(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 year		-	-	-	-	-	-	-	-	-	820	820	105	925
Other comprehensive income		-	-	-	-	-	-	(439)	-	(9)	-	(448)	(41)	(489)
Total comprehensive income for the year		-	-	-	-	-	-	(439)	-	(9)	820	372	64	436
Fair value adjustment on put options written on non-controlling interests	30(b)(*iii*)	-	1	-	-	-	-	-	-	-	-	1	-	1
Capital injection from holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	1	1
Acquisition of subsidiaries from non-controlling interests		-	(15)	-	-	-	-	-	-	-	-	(15)	(3)	(18)
Disposal of subsidiaries		-	-	(1)	(2)	-	-	-	-	-	3	-	(8)	(8)
Shares issued in respect of scrip dividends	30(a)	134	-	-	-	-	-	-	-	-	-	134	-	134
Lapse of share options		-	-	-	-	-	(2)	-	-	-	2	-	-	-
Transfer from / to retained profits		-	16	-	12	-	-	-	-	-	(28)	-	-	-
Dividends	11	-	-	-	-	-	-	-	-	-	(314)	(314)	-	(314)
Dividends to holders of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	(110)	(110)
At 31 December 2018		1,669	50	142	108	(43)	25	(188)	38	(6)	8,487	10,282	511	10,793

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

HK$ million	Note	Attributable to shareholders of the Company: Share capital (30(a))	General reserve (30(b))	Capital reserve (30(c))	Statutory surplus reserve (30(d))	Merger reserve (30(e))	Share option reserve (30(f))	Exchange fluctuation reserve (30(g))	Asset revaluation reserve (30(h))	Hedging reserve (30(i))	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2017		1,477	86	143	88	(43)	80	(455)	37	(9)	7,328	8,732	512	9,244
Profit for the year		–	–	–	–	–	–	–	–	–	802	802	119	921
Other comprehensive income		–	–	–	–	–	–	706	1	12	–	719	44	763
Total comprehensive income for the year		–	–	–	–	–	–	706	1	12	802	1,521	163	1,684
Fair value adjustment on put options written on non-controlling interests	30(b)*(iii)*	–	3	–	–	–	–	–	–	–	–	3	–	3
Acquisition of subsidiaries from non-controlling interests		–	(5)	–	–	–	–	–	–	–	–	(5)	1	(4)
Capital injection from holders of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	8	8
Disposal of a subsidiary		–	–	–	(1)	–	–	–	–	–	1	–	(6)	(6)
Shares issued in respect of scrip dividends	30(a)	58	–	–	–	–	–	–	–	–	–	58	–	58
Share-based payments	7(b)	–	–	–	–	–	(3)	–	–	–	–	(3)	–	(3)
Lapse of share options		–	–	–	–	–	(50)	–	–	–	50	–	–	–
Transfer from / to retained profits	30(b)*(iv)*	–	(36)	–	11	–	–	–	–	–	25	–	–	–
Dividends	11	–	–	–	–	–	–	–	–	–	(161)	(161)	–	(161)
Dividends to holders of non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(111)	(111)
At 31 December 2017		1,535	48	143	98	(43)	27	251	38	3	8,045	10,145	567	10,712

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

HK$ million	2018	2017
Operating activities		
Profit before taxation	**1,327**	1,292
Adjustments for		
Net (gain) / loss on		
– remeasurement of investment properties	**(5)**	(7)
– remeasurement of financial assets at fair value through profit or loss ("FVTPL")	**3**	(16)
– remeasurement of foreign currency forward contracts	**(1)**	1
– disposal of property, plant and equipment	**(26)**	–
– disposal of properties held for own use	**(17)**	(64)
– disposal of subsidiaries	**(412)**	(16)
– disposal of joint ventures	**–**	2
Net provision / (reversal) of impairment losses on		
– property, plant and equipment	**8**	21
– intangible assets	**10**	20
– goodwill	**75**	–
– amounts due from joint ventures	**–**	(54)
– debtors and other current assets	**63**	73
Depreciation and amortisation	**673**	581
Finance costs	**230**	193
Interest income	**(15)**	(14)
Share of profit after tax of associates	**(6)**	(14)
Share of profit after tax of joint ventures	**(9)**	(21)
Share-based payments	**–**	(3)
Foreign exchange loss	**5**	26
Operating profit before changes in working capital	**1,903**	2,000
(Increase) / decrease in inventories	**(531)**	659
Decrease in debtors and other assets	**320**	198
Increase / (decrease) in creditors and other liabilities	**571**	(455)
Cash generated from operations	**2,263**	2,402
Income tax paid	**(622)**	(397)
Net cash generated from operating activities	**1,641**	2,005

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2018

HK$ million	Note	2018	2017
Investing activities			
Payment for purchase of property, plant and equipment		**(1,168)**	(797)
Payment for lease prepayments		**(10)**	–
Payment for purchase of intangible assets		**(4)**	–
Proceeds from disposal of an investment property held for sale		**–**	346
Proceeds from disposal of property, plant and equipment		**215**	295
Net advance (to) / from joint ventures		**(23)**	94
Net advance from / (to) associates		**5**	(2)
Cash outflow for settlement of put option written on non-controlling interests	27(c)*(ii)*	**(173)**	–
Net cash outflow for business combinations		**–**	(720)
Net cash outflow for business combinations in previous year	27(c)*(i)*	**(309)**	(80)
Net cash outflow for acquisition of associates		**–**	(4)
Net cash inflow from disposal of subsidiaries		**416**	26
Net cash inflow from disposal of a subsidiary in previous year		**–**	244
Net cash inflow from disposal of joint ventures		**–**	13
Payment for contingent consideration payable		**–**	(5)
Payment for subscription of convertibles notes	20	**–**	(47)
Proceeds from redemption of financial assets at amortised cost		**3**	–
Capital injection from holders of non-controlling interests		**1**	8
Capital injection to associates		**(161)**	(9)
Interest received		**13**	14
Dividends received from an associate		**8**	3
Dividends received from joint ventures		**11**	–
(Increase) / decrease in deposits with banks		**(16)**	10
Net cash used in investing activities		**(1,192)**	(611)
Financing activities			
Proceeds from bank and other loans	25(b)	**13,240**	12,297
Repayment of bank and other loans	25(b)	**(13,231)**	(13,437)
Acquisition of subsidiaries from non-controlling interests		**–**	(4)
Net (repayment to) / advance from holders of non-controlling interests	25(b)	**(30)**	56
Interest paid	25(b)	**(226)**	(192)
Dividends paid to shareholders of the Company		**(180)**	(103)
Dividends paid to holders of non-controlling interests		**(110)**	(111)
Net cash used in financing activities		**(537)**	(1,494)
Net decrease in cash and cash equivalents		**(88)**	(100)
Cash and cash equivalents at 1 January		**1,013**	1,042
Effect of foreign exchange rates changes		**(40)**	71
Cash and cash equivalents at 31 December	25(a)	**885**	1,013

The reconciliation of liabilities / assets arising from financing activities is disclosed in Note 25(b).

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2.

(b) Changes in accounting policies

The HKICPA has issued a number of new and amendments to HKFRSs, HKASs and Interpretations 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*

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

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, additional provision of HK$7 million has been made accordingly during the year ended 31 December 2018. Upon the adoption of HKFRS 9, the Group has applied retrospectively to items that existed at 1 January 2018 and the comparative information is not required to be restated in accordance with the transitional provisions of HKFRS 9. Any transition adjustments has been recognised against the opening balance 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.

The adoption of other new or amendments to HKFRSs 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 1(b)*(i)* for HKFRS 15 and Note 1(b)*(ii)* for HKFRS 9.

(i) 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 Increase / (Decrease)
Retained profits	
Deferred revenue from warranty service identified as separate performance obligations	(50)
Revenue from installation services in sales contracts identified as separate performance obligations	1
Related tax impact of the above	8
Net decrease in retained profits at 1 January 2018	(41)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

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

The impacts on the Group's consolidated statement of 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 following tables summarise the impacts of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss for the year then ended for each of the line items affected.

Impacts on the consolidated statement of financial position:

	At 31 December 2018		
HK$ million	**As reported**	**Adjustments**	**Amounts without adoption of HKFRS 15**
Deferred tax assets	**98**	**3**	**101**
Inventories	**6,593**	**478**	**7,071**
Debtors and other current assets	**8,423**	**(448)**	**7,975**
Creditors and other current liabilities	**(8,686)**	**26**	**(8,660)**
Current tax payable	**(137)**	**(4)**	**(141)**
Other non-current liabilities	**(177)**	**15**	**(162)**
Other reserves	**(8,613)**	**(70)**	**(8,683)**

Impacts on the consolidated statement of profit or loss:

	For the year ended 31 December 2018		
HK$ million	**As reported**	**Adjustments**	**Amounts without adoption of HKFRS 15**
Revenue	**50,878**	**2,226**	**53,104**
Cost of sales	**(43,953)**	**(2,191)**	**(46,144)**
Income tax	**(380)**	**(6)**	**(386)**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

(i) 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:

1. *Timing of revenue recognition*

Impact on the Group's revenue recognition policy from adoption of HKFRS 15:

– Sales of motor vehicles and motor yachts

Upon adoption of HKFRS 15, the Group's revenue from sales of motor vehicles and motor yachts is recognised at a point in time when the customer obtains control of the motor vehicles and motor yachts. Factors to determine when the customers obtain control of motor vehicles and motor yachts include issuance of registration document (applicable to certain jurisdictions), full payments have been made and the goods have been delivered to and accepted by the customers.

Under HKAS 18, the Group recognises revenue from sales of motor vehicles and motor yachts when the risks and rewards of ownership have been passed to the customers, that is when the registration document is issued or on delivery of motor vehicles and motor yachts, whichever is earlier.

Revenue recognised under HKFRS 15 is at a later time than that of under HKAS 18. 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.

– Provision of service-type warranty

The Group provides warranty services in relation to the sales of motor vehicles. Under HKFRS 15, the Group determined that certain warranty services are service-type warranty that is distinct from the sales of motor vehicles and should be accounted for as a separate performance obligation. The Group allocates the transaction prices to the products and the service-type warranty under HKFRS 15. Revenue arising from such service-type warranty is recognised when the performance obligation has been fulfilled.

Revenue is recognised later under HKFRS 15 than under HKAS 18. The profit from 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

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

2. *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 goods or services before such goods or services are transferred to the 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 recognition of revenue for certain transactions in its agency business under consumer products business segment from a gross basis to a net basis.

As a result of the change, 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 is recognised as revenue. Direct costs of HK$2,065 million related to these transactions have been netted off with the revenue for the year ended 31 December 2018. The products held at 31 December 2018, amounting to HK$591 million, have been reclassified from "Inventories" to "Assets held on behalf of principals" under "Debtors and other current assets".

3. *Presentation of contract assets and liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue 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. The Group has assessed the expected credit losses of contract assets in accordance with HKFRS 9 on the same basis as financial assets (see Note 1(b)*(ii)*).

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

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

3. *Presentation of contract assets and liabilities (continued)*

As a result of the changes in presentation, the Group has made the following reclassification at 31 December 2018:

– "Gross amounts due from customers for contract work" and a portion of "Trade debtors and bills receivables" which represents receivables from customers recognised before being unconditionally entitled totalling HK$110 million, which were previously included in "Debtors and other current assets" (Note 24) are now presented as "Contract assets" (Note 23(a)) under "Debtors and other current assets".

– "Gross amounts due to customers for contract work" and a portion of "Other payables and accrued charges" in respect of advance payments from customers amounting to HK$26 million and HK$1,972 million respectively, are now presented as "Contract liabilities and advance payment from customers" included in "Creditors and other current liabilities" (Note 27).

(ii) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial Instruments: recognition and measurement*. 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:

1. *Classification and measurement of financial assets and financial liabilities*

Upon adoption of HKFRS 9, the classification 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 1(b)*(i)*), 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.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

All other financial assets continue to be measured on the same basis as were 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 FVTPL at 1 January 2018.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

(ii) HKFRS 9, Financial instruments (continued)

2. Credit losses of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

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 and bills receivables, lease receivables and contract assets. 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 within the next 12 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 has been impacted by HKFRS 9 that an additional provision of HK$7 million has been made accordingly during the year ended 31 December 2018.

For further details on the Group's accounting policy for accounting for credit losses, see Note 1(m)*(i)*.

3. Hedge accounting

At initial application, the Group has chosen to continue to apply the hedge accounting requirements of HKAS 39 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 the amendments which conform that interpretation to the requirements in Chapter 6 of HKFRS 9.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and any unrealised profits and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and shareholders of the Company.

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

Changes in the Group's equity interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions, whereby adjustments (the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration) are made directly in general reserve to reflect the changes in relative interests. No adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of financial asset or, when appropriate, the cost on initial recognition of investment in an associate or a joint venture.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (see Note 1(n)), and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's net identifiable assets over the cost of investment, if any. The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition after tax results of the investees and any impairment loss for the year are recognised in the consolidated statement of profit or loss whereas the Group's share of the post-acquisition after tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and such amount is regarded as the fair value on initial recognition of a financial asset.

(e) Goodwill

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

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

Goodwill is stated at cost less accumulated impairment losses (see Note 1(m)*(iii)*). Goodwill is allocated to each of the Group's cash-generating unit ("CGU"), or groups of CGU, that is expected to benefit from synergies of the combination, and is tested annually for impairment.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets

(i) Classification and measurement

A financial asset (unless it is a trade receivable without a significant financial component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financial component is initially measured at the transaction price.

1. Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL.

– Amortised cost

For financial assets measured at amortised cost, it is held within a business model whose objective is to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from the financial assets at amortised cost is calculated using the effective interest method (see Note 1(w)*(xii)*).

– FVOCI – debt investment

If the contractual cash flows of the debt investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses and interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVOCI – equity investment

Equity investment is classified as FVTPL unless it is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 1(w)*(xi)*.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(i) Classification and measurement (continued)

1. *Policy applicable from 1 January 2018 (continued)*

– FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVOCI as described above are measured at FVTPL. Changes in fair value of the financial assets (including interest) are recognised in profit or loss.

2. *Policy applicable prior to 1 January 2018*

The Group classifies its financial assets in the following categories:

– Financial assets at FVTPL

For financial assets designated to be measured at FVTPL, the fair value is remeasured at the end of each reporting period, with any resultant gain or loss being recognised in profit or loss (see Note 32(e)).

– Held-to-maturity investments

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see Note 1(m)*(i)*). They are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets. Held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

– Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long term. They are presented as non-current assets unless they are mature, or management intends to dispose of them within 12 months of the end of the reporting period. At the end of each reporting period the fair value of available-for-sale investment is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated in the fair value reserve. Dividend income from these investments is recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

(i) Classification and measurement (continued)

2. *Policy applicable prior to 1 January 2018 (continued)*

– Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of "finance lease receivables", "debtors and other current assets" and "cash and bank deposits". Loans and receivables are subsequently carried at amortised cost using the effective interest method, less provision for impairment, except where the receivables are non-interest bearing loans made to related parties that are recoverable on demand or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less provision for impairment.

(ii) Recognition and derecognition

Debtors and other receivables are recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 1(p)).

Investments in debt and equity securities are recognised on the date the Group commits to purchase the investment.

All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivative financial instruments

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

(h) Hedging

(i) Cash flow hedges

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

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

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

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

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

(ii) Hedge of net investments in foreign operations

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment properties

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

Investment properties are stated in the consolidated statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 1(w)*(vi)*.

(j) Property, plant and equipment

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

Construction in progress represents property, plant and equipment under construction and is initially recognised in the consolidated statement of financial position at cost. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, other directly attributable costs and borrowing costs.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item and is recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the reducing balance method or straight-line method over their estimated useful lives as follows:

– freehold land is not depreciated.

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

– buildings situated on freehold land are depreciated on a straight-line basis over their estimated useful lives, being no more than 65 years after the date of completion.

– buildings situated on leasehold land are depreciated on a straight-line basis over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 60 years after the date of completion.

– motor vehicles held for use under operating leases are depreciated on a reducing balance basis at 20% to 30% per annum or on a straight-line basis over their estimated useful lives of 5 to 8 years.

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

Both the useful life of a property, plant and equipment and its residual value, if any, are reviewed annually.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group with a finite estimated useful life are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses. The useful life and method of amortisation of an intangible asset are reviewed annually.

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

Car dealerships	40 years
Supplier relationship	9 –16 years
Others	1–20 years

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

(l) Leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as assets held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

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

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

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

Lease prepayments for land held under an operating lease are amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property. The amortisation of lease prepayment is capitalised as part of cost of construction of building during the construction period.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit loss and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

1. Policy applicable from 1 January 2018

Financial assets measured at amortised cost (including cash and cash equivalents and debtors and other receivables), debt securities measured at FVOCI (recycling), lease receivables and contract assets as defined in HKFRS 15 (see Note 1(p)) are subject to ECL assessment.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVTPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

– Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, debtors and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof

– variable-rate financial assets: current effective interest rate

– lease receivables: discount rate used in the measurement of the lease receivable

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit loss and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

1. Policy applicable from 1 January 2018 (continued)

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs 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 ECLs.

– Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit loss and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

1. Policy applicable from 1 January 2018 (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

– Basis of calculation of interest income

Interest income recognised in accordance with Note 1(w)*(xii)* is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit loss and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

1. Policy applicable from 1 January 2018 (continued)

– Write off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2. Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVTPL (e.g. loans and receivables, available-for-sale financial assets and held-to-maturity investments). Under the "incurred loss" model, financial assets carried at amortised costs and available-for-sale investments are reviewed for impairment at the end of each reporting period to determine whether there is objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit loss and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

2. *Policy applicable prior to 1 January 2018 (continued)*

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

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. Reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale investments, the cumulative loss that has been recognised directly in fair value reserve is transferred to profit or loss. The amount of the cumulative loss to be recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale investments are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within debtors and other current assets, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit loss and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "creditors and other current liabilities" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(iii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments;

– intangible assets;

– interests in subsidiaries, associates and joint ventures; and

– goodwill.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit loss and impairment of assets (continued)

(iii) Impairment of other assets (continued)

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Asset held for sale

An asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together in a single transaction, and liabilities associated with those assets that will be transferred in the transaction.

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

(o) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on first-in-first-out, specific identification or weighted average basis as appropriate and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as cost of sales in the period in which the related revenue is recognised. The amount of write-down of inventories to net realisable value and all losses of inventories are recognised as cost of sales in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is offset against the cost of sales in the period in which the reversal occurs.

(p) Contract assets and contract liabilities

(i) Policy applicable from 1 January 2018

A contract asset is recognised when the Group recognises revenue (see Note 1(w)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses in accordance with the policy set out in Note 1(m)*(i)* and are reclassified to receivables when the right to the consideration has become unconditional (see Note 1(f)*(ii)*).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 1(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 1(f)*(ii)*).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Contract assets and contract liabilities (continued)

(i) Policy applicable from 1 January 2018 (continued)

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(ii) Policy applicable prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "gross amount due from customers for contract work" (as an asset) or the "gross amount due to customers for contract work" (as a liability), as applicable, under "debtors and other current assets" or "creditors and other current liabilities" respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "debtors and other current assets". Amounts received before the related work was performed were included under "creditors and other current liabilities". These balances have been reclassified on 1 January 2018 as shown in Note 23 (see Note 1(b)*(i)*).

(q) Interest bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing cost (see Note 1(y)).

(r) Creditors and other payables

Creditors and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(m)*(ii)*, creditors and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity from date of deposit. Bank overdrafts that are repayable on demand are also included as a component of cash and cash equivalents for the purpose of presentation in the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 1(m)*(i)*.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits

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

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

(ii) Share-based payments

The fair value of share options granted to employees of the Group is recognised as a staff cost with a corresponding increase in share option reserve within equity. The fair value is measured at the grant date using the Binomial Lattice Model, taking into account the terms and conditions upon which the options were granted.

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

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

(u) Income tax

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

Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the temporary difference or tax losses can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income (continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of motor vehicles and motor yachts

Revenue arising from the sales of motor vehicles and motor yachts is recognised when the customer obtains control of the motor vehicles and motor yachts. Factors to determine when the customers obtain control of motor vehicles and motor yachts include issuance of registration document (applicable to certain jurisdictions), full payments have been made and the goods have been delivered to and accepted by the customers. If the products are a partial fulfilment of a contract covering other goods and / or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

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

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

Revenue arising from the sales of motor parts, accessories, foodstuff, consumer products and healthcare products is recognised when the customers takes possession and accepts the products. Revenue is after deduction of any trade discounts.

(iii) Repairing services income

Revenue arising from repairing services is recognised when the relevant service is rendered without further performance obligations.

(iv) Maintenance services income

Revenue arising from maintenance services is recognised over time as these service are provided.

(v) Logistics service income and other related services income

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

(vi) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income (continued)

(vii) Construction and installation revenue

A contract with a customer is classified by the Group as a construction and installation contract when the contract under the control of the customer and therefore the Group's construction and installation activities create or enhance an asset under the customer's control.

When the outcome of a construction and installation contract can be reasonably measured, revenue from the contract is recognised progressively over time using (1) input method, i.e. based on the Group's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation; or (2) output method, i.e. based on the surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

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

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised at the present value of the lower of the expected cost of terminating the contract and the net cost continuing with the contract.

Revenue for construction and installation contracts was recognised on a similar basis in the comparative period under HKAS 11 and HKAS 18.

(viii) Made-to-order manufacturing arrangements

The Group classifies contracts as made-to-order manufacturing arrangements when the Group manufactures the products in accordance with the customer's specification and under the contract the Group has the right to be paid for work done to date if the customer were to cancel the contract before the order was fully completed.

Revenue arising from made-to-order manufacturing arrangements, and a corresponding contract asset (see Note 1(p)), are recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see Note 1(f)*(ii)*).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income (continued)

(ix) Commission and rebate income

Commission and rebate income (except for supplier rebate referred in Note 1(x)) are recognised at a point in time when the customer obtains control of the goods or service concerned.

(x) Subsidy income

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

(xi) Dividend income

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

(xii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(m)*(i)*).

(xiii) Interest income from finance lease

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

(x) Supplier rebate

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

(y) Borrowing costs

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange differences are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income (see Note 1(h)*(ii)*).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(aa) Related parties

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

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

(b) has significant influence over the Group; or

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Related parties (continued)

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

(a) The entity and the Group are the member of the same Group (which means that each parent, subsidiary or fellow subsidiary is related to the others).

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

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of third entity.

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

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

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

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

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

(ab) Segment reporting

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

2. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Valuation of investment properties and financial assets at FVTPL

The investment properties and financial assets at FVTPL are revalued by independent professional qualified valuers at the end of each reporting period. Such valuations are based on certain assumptions (see Note 14(f) and Note 32(e)), which are subject to uncertainty and might materially differ from the actual results. Any increase or decrease in the valuations would affect the Group's profit or loss in future years.

(b) Income tax, other taxes and related surcharges

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

Recognition of deferred tax assets, which principally related to tax losses, depends on management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

(c) Credit loss and impairment of assets

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

Loss allowance for trade receivables, lease receivables and contract assets is assessed and estimated by management using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and assessment of both current and forecast general economic conditions at the reporting date. Any increase or decrease in such estimation of credit loss allowance would affect the Group's profit or loss in future years.

(d) Provision for inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value. The net realisable value is estimated based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's financial position.

2. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Provision for product rectification

The Group makes provision for product rectification taking into account the Group's recent claim experience. As the manufacturers are continually upgrading the product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that the Group will receive in respect of past sales. Any increase or decrease in such provision would affect the Group's profit or loss in future years.

(f) Depreciation and amortisation

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

(g) Contingent considerations of acquisitions

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

3. REVENUE

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

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

HK$ million	2018	2017
Sales of motor vehicles, yachts, parts, accessories and motor services	**37,708**	34,428
Sales of food, healthcare and consumer products and logistics services income	**12,689**	16,406
Revenue from other businesses	**38**	32
Revenue from contracts with customers within the scope of HKFRS 15 (Note)	**50,435**	50,866
Rental income from motor leasing business	**429**	356
Rental income from leasing of properties	**14**	16
Revenue recognised according to other accounting standards	**443**	372
Total	**50,878**	51,238

3. REVENUE (CONTINUED)

(i) Disaggregation of revenue (continued)

Note:
The Group has initially applied HKFRS 15 using the cumulative effect transition method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see Note 1(b)*(i)*).

As the Group has expanded its principal activities to cover the businesses of hire purchase and insurance agency, the handling and service charge income and commission income from these businesses are classified under "Revenue". Comparative figures of such income totalling HK$732 million have been reclassified from "Other net income" to "Revenue" to conform to current year's presentation.

Disaggregation of revenue from contracts with customers by geographical segment is disclosed in Note 4(d).

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is HK$307 million. This amount represents revenue expected to be recognised in the future from existing sales contracts with unsatisfied or partially unsatisfied performance obligations. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 to 113 months.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the sales contracts that had an original expected duration of one year or less.

4. SEGMENT REPORTING

The Group manages its businesses by business line and geographical location. In a manner consistent with the way the information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments:

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

The motor business mainly consists of the operations of (i) motor vehicle distribution and dealership business; and (ii) other motor related business, which includes operation of 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.

4. 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) gain / loss on remeasurement and (iv) impairment loss on intangible assets and goodwill, which are presented as reconciliation items in Note 4(b).

4. SEGMENT REPORTING (CONTINUED)

(a) Segment results

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

HK$ million **Year ended 31 December 2018**	**Motor Business** **Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Consumer Products Business** **Hong Kong & Macao**	**Mainland China**	**Other Markets**	**Sub-total**	**Other Businesses**	**Inter-segment elimination**	**Total**
Revenue from external customers	**5,924**	**30,637**	**1,576**	**38,137**	**7,151**	**3,592**	**1,946**	**12,689**	**52**	**-**	**50,878**
Inter-segment revenue	**4**	**1**	**-**	**5**	**3**	**3**	**-**	**6**	**96**	**(107)**	**-**
Segment Revenue (Note *(i)*)	**5,928**	**30,638**	**1,576**	**38,142**	**7,154**	**3,595**	**1,946**	**12,695**	**148**	**(107)**	**50,878**
Segment result from operations (Note *(ii)*)	**428**	**826**	**160**	**1,414**	**350**	**(284)**	**37**	**103**	**453**	**-**	**1,970**
Share of profit / (loss) after tax of associates	**-**	**8**	**-**	**8**	**-**	**12**	**-**	**12**	**(14)**	**-**	**6**
Share of profit after tax of joint ventures	**-**	**3**	**-**	**3**	**-**	**-**	**-**	**-**	**6**	**-**	**9**
Segment profit / (loss) before taxation (Note *(ii)*)	**428**	**837**	**160**	**1,425**	**350**	**(272)**	**37**	**115**	**445**	**-**	**1,985**
Segment income tax (Note *(ii)*)	**(71)**	**(216)**	**(33)**	**(320)**	**(58)**	**(39)**	**(20)**	**(117)**	**(9)**	**-**	**(446)**
Segment profit / (loss) after taxation (Note *(ii)*)	**357**	**621**	**127**	**1,105**	**292**	**(311)**	**17**	**(2)**	**436**	**-**	**1,539**

HK$ million Year ended 31 December 2017	Motor Business Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Consumer Products Business Hong Kong & Macao	Mainland China	Other Markets	Sub-total	Other Businesses	Inter-segment elimination	Total
Revenue from external customers	5,748	26,865	2,171	34,784	8,809	4,710	2,887	16,406	48	-	51,238
Inter-segment revenue	5	-	-	5	1	1	-	2	95	(102)	-
Segment Revenue (Note *(i)*)	5,753	26,865	2,171	34,789	8,810	4,711	2,887	16,408	143	(102)	51,238
Segment result from operations (Note *(ii)*)	422	868	204	1,494	309	(198)	53	164	50	-	1,708
Share of profit / (loss) after tax of associates	-	5	-	5	-	10	-	10	(1)	-	14
Share of profit after tax of joint ventures	-	15	-	15	-	-	-	-	6	-	21
Segment profit / (loss) before taxation (Note *(ii)*)	422	888	204	1,514	309	(188)	53	174	55	-	1,743
Segment income tax (Note *(ii)*)	(93)	(204)	(39)	(336)	(45)	(8)	(17)	(70)	(10)	-	(416)
Segment profit / (loss) after taxation (Note *(ii)*)	329	684	165	1,178	264	(196)	36	104	45	-	1,327

Notes:

(i) The handling and service charge income and commission income have been classified under "Revenue" and the comparative figures have been adjusted to conform to current year's presentation (see Note 3).

(ii) For the year ended 31 December 2018, net provision of impairment losses on property, plant and equipment is included under segment results and the comparative figure has been adjusted to conform to current year's presentation (see Note 4(c)).

4. SEGMENT REPORTING (CONTINUED)

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

HK$ million	2018	2017
Segment profit after taxation	**1,539**	1,327
Net gain / (loss) on		
– remeasurement of investment properties	**5**	7
– remeasurement of financial assets at FVTPL	**(3)**	16
– disposal of properties held for own use	**17**	64
– remeasurement of foreign currency forward contracts	**1**	(1)
Amortisation of fair value adjustments on property, plant and equipment, lease prepayments and intangible assets arising from business combinations	**(76)**	(87)
Provision of impairment losses on		
– intangible assets	**(10)**	(20)
– goodwill	**(75)**	–
Share-based payments	**–**	3
Unallocated corporate expenses	**(516)**	(433)
Reconciliation items before taxation	**(657)**	(451)
Tax impact:		
Net tax effect on the above reconciliation items	**65**	62
Reconciliation items net of taxation	**(592)**	(389)
Profit for the year	**947**	938

4. SEGMENT REPORTING (CONTINUED)

(c) Other segment information

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

HK$ million Year ended 31 December 2018	Motor Business Hong Kong & Macao	Motor Business Mainland China	Motor Business Other Markets	Motor Business Sub-total	Consumer Products Business Hong Kong & Macao	Consumer Products Business Mainland China	Consumer Products Business Other Markets	Consumer Products Business Sub-total	Other Businesses	Total
Segmental depreciation and amortisation	**81**	**345**	**14**	**440**	**42**	**36**	**37**	**115**	**16**	**571**
Segmental interest income	**(8)**	**(21)**	**(1)**	**(30)**	**(10)**	**(3)**	**(1)**	**(14)**	**(1)**	**(45)**
Segmental interest expense	**23**	**26**	**1**	**50**	**15**	**21**	**3**	**39**	**6**	**95**
Segmental write-down of inventories	**25**	**18**	**3**	**46**	**8**	**48**	**1**	**57**	**-**	**103**
Segmental reversal of write-down of inventories	**(9)**	**(7)**	**(2)**	**(18)**	**(7)**	**(13)**	**(7)**	**(27)**	**-**	**(45)**
Segmental net provision of impairment losses on property, plant and equipment	**-**	**8**	**-**	**8**	**-**	**-**	**-**	**-**	**-**	**8**
Segmental net provision of impairment losses on debtors and other current assets	**2**	**18**	**5**	**25**	**2**	**36**	**-**	**38**	**-**	**63**
Segmental net gain on disposal of subsidiaries	**(2)**	**(1)**	**-**	**(3)**	**-**	**(1)**	**-**	**(1)**	**(408)**	**(412)**

HK$ million Year ended 31 December 2017	Motor Business Hong Kong & Macao	Motor Business Mainland China	Motor Business Other Markets	Motor Business Sub-total	Consumer Products Business Hong Kong & Macao	Consumer Products Business Mainland China	Consumer Products Business Other Markets	Consumer Products Business Sub-total	Other Businesses	Total
Segmental depreciation and amortisation	73	267	12	352	42	39	35	116	13	481
Segmental interest income	(1)	(34)	(1)	(36)	(5)	(3)	(2)	(10)	(1)	(47)
Segmental interest expense	6	13	2	21	10	36	5	51	5	77
Segmental write-down of inventories	26	21	6	53	16	45	6	67	-	120
Segmental reversal of write-down of inventories	(8)	(9)	(1)	(18)	(15)	(27)	(14)	(56)	-	(74)
Segmental net provision of impairment losses on property, plant and equipment	-	20	-	20	-	-	1	1	-	21
Segmental net provision / (reversal) of impairment losses on debtors and other current assets	6	24	3	33	(6)	51	(5)	40	-	73
Segmental net gain on disposal of subsidiaries	-	(2)	-	(2)	-	(14)	-	(14)	-	(16)

4. SEGMENT REPORTING (CONTINUED)

(d) Geographic information

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

	Revenue from external customers		Non-current assets	
HK$ million	**2018**	2017	**2018**	2017
Hong Kong & Macao	**13,120**	14,597	**3,303**	3,085
Mainland China	**34,229**	31,576	**6,896**	7,041
Other Markets	**3,529**	5,065	**758**	816
Total	**50,878**	51,238	**10,957**	10,942

The analysis above includes rental income from external customers of HK$147 million (2017: HK$148 million) in Hong Kong & Macao, of HK$269 million (2017: HK$199 million) in mainland China and of HK$27 million (2017: HK$25 million) in other markets.

5. OTHER NET INCOME

HK$ million	**2018**	2017
Advertising and other subsidies from suppliers	**121**	135
Net gain / (loss) on disposal of		
– property, plant and equipment	**26**	–
– properties held for own use	**17**	64
– joint ventures	**–**	(2)
Government subsidies	**17**	24
Handling and service charge income (Note)	**16**	12
Compensation income	**14**	2
Forfeited deposit from customers	**13**	7
Interest income from bank deposits	**8**	10
Other interest income	**7**	4
Net gain / (loss) on remeasurement of		
– investment properties	**5**	7
– foreign currency forward contracts	**1**	(1)
– financial assets at FVTPL	**(3)**	16
Net exchange loss	**(21)**	(6)
Others	**56**	62
Total	**277**	334

Note:
Comparative figures of handling and service charge income and commission income have been reclassified from "Other net income" to "Revenue" to conform to current year's presentation (See Note 3*(i)*).

6. NET GAIN ON DISPOSAL OF SUBSIDIARIES

Included in the net gain on disposal of subsidiaries during the year ended 31 December 2018 is an amount of HK$407 million for the gain on disposal of Sing Wo Chong Investment Company, Limited, a wholly-owned subsidiary of the Group incorporated in Hong Kong, to an independent third party at a cash consideration of HK$421 million. Net cash inflow to the Group of such disposal is HK$416 million after netting off the related expenses of HK$5 million.

In addition, the Group disposed of certain immaterial subsidiaries with a net gain on disposal of HK$5 million (2017: HK$16 million).

7. PROFIT BEFORE TAXATION

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

(a) Finance costs

HK$ million	**2018**	2017
Interest on bank advances and other borrowings	**226**	192
Other interest expenses	**4**	1
Total	**230**	193

(b) Staff costs

HK$ million	**2018**	2017
Salaries, wages and other benefits	**3,620**	3,428
Contributions to defined contribution retirement schemes (Note)	**181**	176
Share-based payments (Note 31)	**–**	(3)
Total	**3,801**	3,601

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

For the employees in Hong Kong, the Group participates in the Mandatory Provident Fund Scheme ("MPF Scheme"). Assets of the MPF Scheme are held separately in funds under the custody of the respective trustees. The Group contributes to the MPF Scheme at 5% of the employee's monthly relevant income up to the prevailing maximum relevant income level. For employees who transferred from Occupational Retirement Scheme ("ORSO Scheme") to MPF Scheme, the Group continues to contribute to the MPF Scheme at 5% or 10% of monthly basic salary, with no cap.

Retirement benefits for employees in mainland China and other locations are based primarily on local mandatory requirements except for (i) an entity in Macao, in which the Group continues to make voluntary contribution of 5% on monthly basis salary, with no cap to the pension scheme; and (ii) for Philippines, the local law mandates 50% of monthly salary per year of service while the Group makes a monthly provision of 7% of monthly salary, which is equivalent to 84% of monthly salary per year of service.

7. PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

HK$ million	Note	**2018**	2017
Amortisation			
– lease prepayments	15	**23**	17
– intangible assets	16	**90**	77
Depreciation	14(a)	**560**	487
Write-down of inventories	21(b)	**103**	120
Reversal of write-down of inventories	21(b)	**(45)**	(74)
Net provision / (reversal) of impairment losses on			
– property, plant and equipment	14(a)	**8**	21
– intangible assets	16	**10**	20
– goodwill	17	**75**	–
– amounts due from joint ventures		**–**	(54)
– debtors and other current assets		**63**	73
Direct write off of debtors and other current assets		**19**	20
Net loss on realised foreign currency forward contracts		**9**	–
Auditors' remuneration			
– audit and audit related services (Note)		**26**	18
– tax services		**1**	1
– other services		**1**	6
Operating lease charges		**978**	944
Rental income from investment properties less direct outgoings of HK$5 million (2017: HK$5 million)		**(9)**	(9)

Note:
The amount for the year ended 31 December 2017 was netted against an over-provision in prior year of HK$5 million.

8. INCOME TAX

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017-18 subject to a maximum reduction of HK$30,000 (2017: HK$20,000) for each business. Taxation outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdiction.

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

HK$ million	**2018**	2017
Current tax – Hong Kong Profits Tax		
– Provision for the year	**107**	111
– Under-provision in previous years	**–**	3
	107	114
Current tax – Outside Hong Kong		
– Provision for the year	**269**	355
– Under-provision in previous years	**3**	8
	272	363
Deferred tax		
– Origination and reversal of temporary differences	**(25)**	(170)
– (Recognition) / utilisation of deferred tax assets on tax losses	**(14)**	30
	(39)	(140)
Withholding tax	**40**	17
Total	**380**	354

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

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

HK$ million	**2018**	2017
Profit before taxation	**1,327**	1,292
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**265**	264
Tax effect of non-deductible expenses	**87**	54
Tax effect of non-taxable income	**(92)**	(37)
Tax effect of utilisation of previously unrecognised tax losses	**(45)**	(91)
Tax effect of tax losses not recognised	**131**	132
Under-provision in previous years	**3**	11
Withholding tax	**40**	17
Others	**(9)**	4
Income tax charge	**380**	354

9. DIRECTORS' EMOLUMENTS

Directors' emoluments for the years ended 31 December 2018 and 2017 are set out below:

HK$ thousand	Directors' fees	Salaries, allowances and other benefits	Discretionary bonuses	Contributions to defined contribution retirement schemes	2018 Total	2017 Total
Executive directors						
Lai Ni Hium	–	5,256	4,908	18	10,182	11,278
Lee Tak Wah	–	2,843	3,928	138	6,909	5,533
Fung Kit Yi, Kitty	–	3,272	3,250	18	6,540	5,734
Lau Sei Keung (Note *(i)*)	–	1,881	1,000	76	2,957	8,390
Yip Moon Tong (Note *(ii)*)	–	–	–	–	–	4,099
Glenn Robert Sturrock Smith (Note *(iii)*)	–	–	–	–	–	–
Non-executive directors						
Zhang Jijing	–	–	–	–	–	–
Kwok Man Leung	–	–	–	–	–	–
Yin Ke (Note *(iv)*)	–	–	–	–	–	–
Fei Yiping	–	–	–	–	–	–
Independent non-executive directors						
Chan Kay Cheung	420	–	–	–	420	420
Chan Hui Dor Lam, Doreen	420	–	–	–	420	420
Woo Chin Wan, Raymond	420	–	–	–	420	420
Zhang Lijun (Note *(v)*)	315	–	–	–	315	–
Cheng Jinglei (Note *(v)*)	315	–	–	–	315	–
Hsu Hsung, Adolf (Note *(vi)*)	105	–	–	–	105	420
Yeung Yue Man (Note *(vi)*)	105	–	–	–	105	420
Total	2,100	13,252	13,086	250	28,688	37,134

Notes:

(i) Mr Lau Sei Keung retired as an executive director of the Company with effect from 1 April 2018.

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

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

(iv) Mr Yin Ke was appointed as a non-executive director of the Company with effect from 9 October 2018.

(v) Ms Zhang Lijun and Mr Cheng Jinglei were appointed as independent non-executive directors of the Company with effect from 1 April 2018.

(vi) Mr Hsu Hsung, Adolf and Professor Yeung Yue Man retired as independent non-executive directors of the Company with effect from 1 April 2018.

10. FIVE HIGHEST PAID INDIVIDUALS AND EMOLUMENTS OF SENIOR MANAGEMENT

(a) Five highest paid individuals

Of the five highest paid individuals of the Group for the years ended 31 December 2018 and 2017, three (2017: four) are directors of the Company whose emoluments are disclosed in Note 9. The emoluments in respect of the remaining two individuals (2017: one individual) are as follows:

HK$ thousand	**2018**	2017
Salaries, allowances and other benefits	**6,207**	3,699
Discretionary bonuses	**2,773**	2,383
Contributions to defined contribution retirement schemes	**126**	18
Total	**9,106**	6,100

The emoluments of the two (2017: one) individuals with the highest emoluments are within the following bands:

	Number of individuals	
Emolument band (HK$)	**2018**	2017
6,000,001–7,000,000	**–**	1
4,000,001–5,000,000	**2**	–
Total	**2**	1

(b) Emoluments of senior management

Other than the emoluments of directors and five highest paid individuals disclosed in Notes 9 and 10(a), the emoluments of the senior management for the years ended 31 December 2018 and 2017 whose profiles are included in the section "Directors and Senior Management" fell within the following bands:

	Number of individuals	
Emolument band (HK$)	**2018**	2017
4,000,001–5,000,000	**1**	–
3,000,001–4,000,000	**2**	2
2,000,001–3,000,000	**–**	3
1,000,001–2,000,000	**–**	3
Total	**3**	8

11. DIVIDENDS

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

HK$ million	**2018**	2017
Interim dividend declared and paid of 5.05 HK cents (2017: 5.05 HK cents) per share	**94**	93
Final dividend proposed after the end of the reporting period of 12.38 HK cents (2017: 11.90 HK cents) per share	**233**	220
Total	**327**	313

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

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

HK$ million	**2018**	2017
Final dividend in respect of previous financial year, approved and paid during the year of 11.90 HK cents (2017: 3.69 HK cents) per share	**220**	68

12. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the years ended 31 December 2018 and 2017 are based on the profit attributable to shareholders of the Company of HK$820 million (2017: HK$802 million) and the weighted average number of ordinary shares in issue during the year which is calculated as follows:

	Number of ordinary shares	
	2018	2017
Issued ordinary shares at 1 January	**1,847,038,804**	1,832,133,000
Effect of scrip dividend issued (Note 30(a))	**12,350,428**	2,817,810
Weighted average number of ordinary shares	**1,859,389,232**	1,834,950,810

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2018 and 2017 are the same as basic earnings per share as the potential ordinary shares in respect of outstanding share options are anti-dilutive.

13. OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

2018

HK$ million	**Before tax amount**	**Tax expense**	**Net of tax amount**
Exchange differences on translation of financial statements of entities outside Hong Kong:			
– subsidiaries	**(467)**	**–**	**(467)**
– associates and joint ventures	**(27)**	**–**	**(27)**
	(494)	**–**	**(494)**
Cash flow hedge: net movement in hedging reserve	**(8)**	**(1)**	**(9)**
Reserves released upon disposal of subsidiaries	**14**	**–**	**14**
Other comprehensive income	**(488)**	**(1)**	**(489)**

2017

HK$ million	Before tax amount	Tax expense	Net of tax amount
Exchange differences on translation of financial statements of entities outside Hong Kong:			
– subsidiaries	722	–	722
– associates and joint ventures	25	–	25
	747	–	747
Cash flow hedge: net movement in hedging reserve	14	(2)	12
Reserves released upon disposal of subsidiaries	3	–	3
Revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property	2	(1)	1
Other comprehensive income	766	(3)	763

13. OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Components of other comprehensive income, including reclassification adjustments

HK$ million	2018	2017
Exchange differences on translation of financial statements of entities outside Hong Kong	**(494)**	747
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(7)**	12
Net amounts previously recognised in other comprehensive income transferred to profit or loss during the year	**(1)**	2
Net tax effect	**(1)**	(2)
	(9)	12
Reserves released upon disposal of subsidiaries	**14**	3
Revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property	**–**	2
Net tax effect	**–**	(1)
	–	1
Other comprehensive income	**(489)**	763

14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

(a)

HK$ million	Note	Land and buildings held for own use	Construction in progress	Others	Sub-total	Investment properties	Total
	Note	14(d)		14(e)		14(f)	
Cost or valuation:							
At 1 January 2018		2,977	74	4,077	7,128	229	7,357
Exchange adjustments		(114)	(12)	(109)	(235)	(3)	(238)
Additions		2	183	941	1,126	–	1,126
Business combination		51	–	6	57	–	57
Transfer to inventories	14(b)	–	–	(34)	(34)	–	(34)
Reclassification		5	(35)	30	–	–	–
Amortisation capitalised in construction in progress	15	–	4	–	4	–	4
Disposals and written-off		(21)	–	(452)	(473)	–	(473)
Disposal of a subsidiary		(24)	–	–	(24)	–	(24)
Net gain on remeasurement		–	–	–	–	5	5
At 31 December 2018		2,876	214	4,459	7,549	231	7,780
Representing:							
Cost		2,876	214	4,459	7,549	–	7,549
Valuation		–	–	–	–	231	231
At 31 December 2018		2,876	214	4,459	7,549	231	7,780
Accumulated depreciation and impairment:							
At 1 January 2018		900	–	2,444	3,344	–	3,344
Exchange adjustments		(37)	–	(58)	(95)	–	(95)
Business combination		44	–	4	48	–	48
Charge for the year		104	–	456	560	–	560
Impairment loss	14(i)	8	–	–	8	–	8
Transfer to inventories	14(b)	–	–	(19)	(19)	–	(19)
Disposals and written-off		(14)	–	(287)	(301)	–	(301)
Disposal of a subsidiary		(15)	–	–	(15)	–	(15)
At 31 December 2018		990	–	2,540	3,530	–	3,530
Net book value:							
At 31 December 2018		1,886	214	1,919	4,019	231	4,250

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

(a) (continued)

HK$ million	Note	Land and buildings held for own use	Construction in progress	Others	Sub-total	Investment properties	Total
	Note	14(d)		14(e)		14(f)	
Cost or valuation:							
At 1 January 2017		2,520	114	3,671	6,305	215	6,520
Exchange adjustments		157	3	175	335	10	345
Additions		7	69	635	711	–	711
Business combination		327	–	84	411	–	411
Transfer to inventories	14(b)	–	–	(32)	(32)	–	(32)
Transfer to investment properties	14(c)	(6)	–	–	(6)	6	–
Reclassification		56	(109)	53	–	–	–
Amortisation capitalised in construction in progress	15	–	2	–	2	–	2
Disposals and written-off		(84)	(5)	(497)	(586)	(9)	(595)
Disposal of subsidiaries		–	–	(12)	(12)	–	(12)
Net gain on remeasurement		–	–	–	–	7	7
At 31 December 2017		2,977	74	4,077	7,128	229	7,357
Representing:							
Cost		2,977	74	4,077	7,128	–	7,128
Valuation		–	–	–	–	229	229
At 31 December 2017		2,977	74	4,077	7,128	229	7,357
Accumulated depreciation and impairment:							
At 1 January 2017		722	–	2,265	2,987	–	2,987
Exchange adjustments		45	–	99	144	–	144
Business combination		62	–	38	100	–	100
Charge for the year		82	–	405	487	–	487
Impairment loss	14(i)	19	–	2	21	–	21
Transfer to inventories	14(b)	–	–	(22)	(22)	–	(22)
Transfer to investment properties	14(c)	(2)	–	–	(2)	–	(2)
Disposals and written-off		(28)	–	(336)	(364)	–	(364)
Disposal of subsidiaries		–	–	(7)	(7)	–	(7)
At 31 December 2017		900	–	2,444	3,344	–	3,344
Net book value:							
At 31 December 2017		2,077	74	1,633	3,784	229	4,013

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

(b) During the year ended 31 December 2018, certain motor vehicles with carrying amount of HK$15 million (2017: HK$10 million) were transferred to inventories when they ceased to be rented.

(c) During the year ended 31 December 2017, certain land and buildings held for own use with carrying amount of HK$4 million were transferred to investment properties as the property was leased out. The difference between its fair value and carrying amount at the date of transfer of HK$1 million (net of tax) was credited to asset revaluation reserve and was included in "revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property, net of tax" in the Group's other comprehensive income.

(d) The net book value of land and buildings held for own use under finance leases was HK$182 million at 31 December 2018 (2017: HK$184 million).

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

(f) Property valuation

All investment properties, were revalued at 31 December 2018 and 2017 by the following independent valuers with recognised professional qualifications and relevant experience in the location and category of investment properties being revalued. The Group has discussed the valuation assumptions and valuation results with the valuers when the valuation is performed at the end of the reporting period.

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

Fair value hierarchy

The fair value measurement of the Group's investment properties at the end of the reporting period have been categorised into the three-level fair value hierarchy (Note 32(e)*(i)*). The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

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

(f) Property valuation (continued)

All investment properties fall into Level 3 and the movements during the year are as follows:

HK$ million	**Hong Kong**	**Mainland China**	**Japan**	**Total**
At 1 January 2017	45	94	76	215
Exchange adjustments	–	7	3	10
Transfer to Level 3 (Note *(i)*)	–	–	6	6
Disposal	–	–	(9)	(9)
Unrealised fair value gain (Note *(ii)*)	1	4	2	7
At 31 December 2017	46	105	78	229
At 1 January 2018	**46**	**105**	**78**	**229**
Exchange adjustments	**–**	**(5)**	**2**	**(3)**
Unrealised fair value gain (Note *(ii)*)	**2**	**2**	**1**	**5**
At 31 December 2018	**48**	**102**	**81**	**231**

Notes:

(i) Transferred from property, plant and equipment and lease prepayments to investment properties (Note 14(c)) in 2017. The difference between the fair value and carrying amount at the date of transfer of HK$1 million (net of tax) was included in "revaluation gain recognised upon transfer from property held for own use and lease prepayments to investment property, net of tax" in the consolidated statement of comprehensive income.

(ii) The "unrealised fair value gain" for the years ended 31 December 2018 and 2017 was related to investment properties held by the Group at the end of the reporting period and was included in "net gain on remeasurement of investment properties" in the consolidated statement of profit or loss.

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

(f) Property valuation (continued)

Valuation techniques and inputs used in Level 3 fair value measurements

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

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

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

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

Location of properties	Valuation techniques	Unobservable input	Note	Range
Hong Kong	Income Capitalisation Approach	Average market rent per sq. ft. per month	*(i)*	HK$16.9 – HK$87.5 (2017: HK$16.0 – HK$87.5)
		Capitalisation rate	*(ii)*	3.5% – 4.0% (2017: 3.5% – 4.0%)
Mainland China	Income Capitalisation Approach	Average market rent per sq. m. per month	*(i)*	RMB16.2 – RMB41.1 (2017: RMB16.3 – RMB41.2)
		Capitalisation rate	*(ii)*	7.0% – 8.8% (2017: 7.0% – 9.0%)
	Depreciated Replacement Cost Approach	Average unit price of land per sq. m.	*(i)*	RMB319 – RMB434 (2017: RMB312 – RMB424)
		Average construction cost per sq. m.	*(i)*	RMB122 – RMB395 (2017: RMB137 – RMB424)
Japan	Discounted Cash Flow Approach	Discount rate	*(ii)*	5.9% (2017: 6.0%)
	Direct Comparison Approach	Property-specific adjusting factor	*(i)*	1.1 (2017: 1.2)

Notes:

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

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

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

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

HK$ million	2018	2017
Investment properties		
In Hong Kong		
– Long term lease	**31**	29
– Medium term lease	**17**	17
Outside Hong Kong		
– Freehold properties	**81**	78
– Medium term lease	**102**	105
At 31 December	**231**	229

HK$ million	2018	2017
Land and buildings held for own use		
In Hong Kong		
– Long term lease	**4**	4
– Medium term lease	**260**	275
– Short term lease	**1**	1
Outside Hong Kong		
– Freehold properties	**59**	61
– Long term lease	**5**	5
– Medium term lease	**1,312**	1,450
– Short term lease	**245**	281
At 31 December	**1,886**	2,077

(h) Certain properties and buildings situated in mainland China and Taiwan with an aggregate net book value of HK$612 million at 31 December 2018 (2017: HK$736 million) were built on land owned by the Group in respect of which the Group is in the process of applying for property ownership certificates from the relevant authorities or leased from third parties. Notwithstanding this, the directors are of the opinion that the Group has the rights to use these buildings during the year.

(i) During the year ended 31 December 2018, impairment losses of HK$8 million (2017: HK$20 million) have been recognised for certain property, plant and equipment under Motor Business with reference to their recoverable amounts.

Apart from the above, no impairment losses (2017: HK$1 million) have been recognised for certain property, plant and equipment under Consumer Products Business with reference to their recoverable amounts.

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

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

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

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

HK$ million	**2018**	2017
Within 1 year	**268**	164
After 1 year but within 5 years	**315**	161
After 5 years	**49**	60
At 31 December	**632**	385

15. LEASE PREPAYMENTS

HK$ million	**2018**	2017
Cost:		
At 1 January	**979**	593
Exchange adjustments	**(43)**	50
Additions	**10**	–
Business combination	**–**	336
At 31 December	**946**	979
Accumulated amortisation and impairment:		
At 1 January	**121**	94
Exchange adjustments	**(6)**	8
Charge for the year	**23**	17
Amortisation capitalised in construction in progress (Note 14(a))	**4**	2
At 31 December	**142**	121
Net book value:		
At 31 December	**804**	858

15. LEASE PREPAYMENTS (CONTINUED)

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

HK$ million	**2018**	2017
Outside Hong Kong		
– Long term lease	**7**	7
– Medium term lease	**784**	836
– Short term lease	**13**	15
At 31 December	**804**	858

The lease prepayments represent cost of land use rights.

16. INTANGIBLE ASSETS

HK$ million	**Car dealerships**	**Supplier relationship**	**Others**	**Total**
			(Note *(i)*)	
Cost:				
At 1 January 2018	**1,588**	**415**	**295**	**2,298**
Exchange adjustments	**(70)**	**–**	**(3)**	**(73)**
Addition	**–**	**–**	**4**	**4**
Disposal of a subsidiary	**(9)**	**–**	**–**	**(9)**
At 31 December 2018	**1,509**	**415**	**296**	**2,220**
Accumulated amortisation and impairment:				
At 1 January 2018	**250**	**52**	**116**	**418**
Exchange adjustments	**(11)**	**–**	**(1)**	**(12)**
Charge for the year (Note *(ii)*)	**35**	**29**	**26**	**90**
Impairment loss	**–**	**10**	**–**	**10**
Disposal of a subsidiary	**(9)**	**–**	**–**	**(9)**
At 31 December 2018	**265**	**91**	**141**	**497**
Net book value:				
At 31 December 2018	**1,244**	**324**	**155**	**1,723**

16. INTANGIBLE ASSETS (CONTINUED)

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

Notes:

(i) Others mainly comprises customer relationships, trademarks and car licenses for mainland China Motor Business with indefinite useful lives (carrying amount at 31 December 2018: HK$43 million (2017: HK$44 million)). The car licences' recoverable amounts are being measured at fair value less costs of disposal with reference to market quoted price.

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

17. GOODWILL

HK$ million	2018	2017
Cost:		
At 1 January	**2,768**	2,411
Exchange and other adjustments	**(18)**	19
Disposal of a subsidiary	**(3)**	–
Business combination	**–**	338
At 31 December	**2,747**	2,768
Accumulated impairment:		
At 1 January	**8**	8
Disposal of a subsidiary	**(3)**	–
Impairment loss	**75**	–
At 31 December	**80**	8
Carrying amount:		
At 31 December	**2,667**	2,760

Impairment tests of goodwill

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

HK$ million		2018	2017
Motor Business	– Mainland China	**469**	487
Consumer Products Business	– Hong Kong & Macao	**1,704**	1,704
	– Mainland China	**340**	415
	– Other Markets	**148**	148
Other Businesses	– Hong Kong & Macao	**6**	6
		2,667	2,760

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of three to five years. Cash flows beyond the budget period are extrapolated using an estimated growth rate of 2% – 3% (2017: 2% – 3%) which is consistent with average growth rates for the business in which the CGUs operate. The cash flows are discounted using a discount rate of 12% – 14% (2017: 12% – 14%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The goodwill allocated to certain CGUs in the Consumer Products Business in mainland China was fully impaired during the year ended 31 December 2018 after the assessment on its recoverable amount based on value-in-use calculations with the key assumptions similar to those listed above.

18. INTERESTS IN ASSOCIATES

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

Name of associates	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held	Principal activities
Lubritech International Holdings Limited ("Lubritech") (Note)	Hong Kong	HK$205,500,000	40.00	Investment holding
CJ DCH Guangdong Frozen Food Co., Ltd.	The People's Republic of China (the "PRC")	US$14,300,000	40.00	Production and sales of quick frozen food
Otsuka Sims (Guangdong) Beverage Co., Ltd.	PRC	US$32,000,000	40.00	Production of beverage
Tamar Alliance Partners Fund I, L.P.	The Cayman Islands	US$122,400,346	17.39	Investments on companies in consumer and healthcare sector

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

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

HK$ million	2018	2017
Carrying amount in the consolidated financial statements	**364**	214
The Group's effective share of those associates':		
– Profit for the year	**6**	14
– Other comprehensive income	**(10)**	13
– Total comprehensive income	**(4)**	27

19. INTERESTS IN JOINT VENTURES

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

Name of joint ventures	Place of establishment / operation	Paid-up capital	Effective percentage of equity interest held	Principal activities
COSCO-DCH (Beijing) Motor Services Co., Ltd.	PRC	RMB170,000,000	50.00	Motor vehicle leasing
DAS Nordisk Phoenix Aviation Equipment Limited	PRC	RMB4,000,000	24.50	Manufacturing and distribution of air cargo equipment and related spare parts
北京北汽眾運汽車貿易有限公司 (Beijing Beiqi Zhongyun Motor Trading Co., Ltd.) (Note)	PRC	RMB28,000,000	50.00	Property investment

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

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

HK$ million	2018	2017
Carrying amount in the consolidated financial statements:		
– share of net assets and goodwill	202	214
– amounts due from joint ventures (Note)	86	133
	288	347
The Group's effective share of those joint ventures':		
– Profit for the year	9	21
– Other comprehensive income	(17)	12
– Total comprehensive income	(8)	33

Note:
The amounts due from joint ventures are unsecured, not expected to be recoverable within one year and non-interest bearing, except for an amount of HK$86 million (2017: HK$66 million) which is interest bearing at 3.5% (2017: 3.2%) per annum as at 31 December 2018.

The recoverability of the amounts due from joint ventures had been assessed at the end of the reporting period. Based on the assessment, no impairment loss is recognised at 31 December 2018 (2017: HK$6 million).

19. INTERESTS IN JOINT VENTURES (CONTINUED)

(a) The Group had set up several joint ventures with a joint venture partner to operate car dealerships and motor related businesses in southern China ("Joint Ventures"). Since late 2015, there had been several disputes between certain subsidiaries of the Group, the joint venture partner and certain of the Joint Ventures. These disputes include the filing of a court application by a subsidiary of the Group to request settlement of amount due from a Joint Venture and claims made by a Joint Venture for outstanding rental disputes against certain subsidiaries of the Group.

During the year ended 31 December 2017, the Group and the joint venture partner have reached a settlement on the disputes and reversal of provision for impairment losses on amounts due from joint ventures of HK$54 million has been made.

The joint venture relationship between the Group and the joint venture partner has been terminated in December 2018. In particular, the remaining interests held by the joint venture partner in certain Joint Ventures have been acquired by the Group and the Group has completed the disposal of interests in certain Joint Ventures to the joint venture partner upon the settlement.

20. OTHER NON-CURRENT ASSETS

HK$ million	Note	**2018**	2017
Finance lease receivables	24	**416**	437
Prepaid long term assets (Note *(i)*)		**391**	362
Financial assets at FVTPL (Note *(ii)*)		**54**	61
Trade debtors	24	**–**	7
Financial assets at amortised cost		**–**	3
At 31 December		**861**	870

Notes:

(i) The balance represented non-current prepaid rental expenses of HK$165 million (2017: HK$199 million), of which HK$79 million (2017: HK$90 million) was prepaid to a previous joint venture partner for leasing of land, and prepayment of property, plant and equipment of HK$226 million (2017: HK$163 million).

(ii) The balance represented 7,500 convertible notes subscribed by the Group in 2017. The convertible notes have a face value of AUD7.5 million (approximately HK$45 million) and a maturity date of 19 July 2020. The convertible notes bear two types of interest, (i) cash interest at 5% per annum which was recognised in the Group's consolidated statement of profit or loss; and (ii) capitalised interest at 4% per annum from 1 January 2018 to 19 July 2018 and 5% per annum from 20 July 2018 to 31 December 2018 and has been capitalised to form part of the conversion amount.

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

The fair value of the convertibles notes at 31 December 2018 is AUD9.8 million (approximately HK$54 million) (2017: AUD10.1 million (approximately HK$61 million)) (see Note 32(e)*(i)*). The Group has recognised a loss arising from the remeasurement amounting to HK$3 million (2017: a gain of HK$16 million) in profit or loss, in accordance with the accounting policies as mentioned in Note 1(f)*(i)*.

21. INVENTORIES

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

(i) By nature:

HK$ million	2018	2017
Finished goods	**6,475**	6,822
Raw materials	**99**	55
Work-in-progress	**19**	14
At 31 December	**6,593**	6,891

(ii) By business segment:

HK$ million	2018	2017
Motor Business	**4,902**	4,174
Consumer Products Business	**1,691**	2,717
At 31 December	**6,593**	6,891

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

HK$ million	2018	2017
Carrying amount of inventories sold	**41,677**	42,394
Write-down of inventories	**103**	120
Reversal of write-down of inventories	**(45)**	(74)
Total	**41,735**	42,440

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

22. ASSET HELD FOR SALE

As at 31 December 2017, the balance represented certain interests in joint ventures that were in the process of being transferred to the joint venture partner. The transaction has been completed during the year as referred to Note 19(a) for details.

23. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets:

HK$ million	Note	**31 December 2018**	1 January 2018	31 December 2017
Arising from performance under construction and installation contracts	*(ii), (iii)*	**103**	77	–
Arising from performance under sales of goods and services	*(iii)*	**7**	–	–
Total contract assets	24	**110**	77	–

Notes:

(i) The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, amounts previously included as "gross amount due from customers for contract work" under "Debtors and other current assets" (Note 24) were reclassified to "contract assets" (see Note 1(b)*(i)*).

(iii) Upon the adoption of HKFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones or satisfactory completion of the retention period, were reclassified from "Trade debtors and bills receivable" to "contract assets" (see Note 1(b)*(i)*).

Typical payment terms which impact on the amount of contract assets recognised are as follows:

Construction and installation contracts

The Group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached.

The Group typically receives a 15% deposit on acceptance of the installation contracts. The remainder of the consideration is payable on the delivery of the finished goods and upon completion of services. The Group also typically agrees to a one to two year retention period for 2.5–5.0% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing the defects liability period.

23. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities:

HK$ million	Note	**31 December 2018**	1 January 2018	31 December 2017
Arising from performance under construction and installation contracts	*(ii)*	**26**	5	–
Arising from performance under sales of goods and services	*(iii)*	**2,034**	1,456	–
Total contract liabilities	27	**2,060**	1,461	–
Representing:				
Current	27	**1,998**	1,461	–
Non-current	28	**62**	–	–
Total contract liabilities		**2,060**	1,461	–

Notes:

(i) The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, amounts previously included as "gross amount due to customers for contract work" under "creditors and other current liabilities" (Note 27) were reclassified to "contract liabilities" (see Note 1(b)*(i)*).

(iii) Upon the adoption of HKFRS 15, the consideration received from the customers for the undelivered goods or services previously recorded as "other payables and accrued charges" were reclassified as "contract liabilities" (see Note 1(b)*(i)*).

When the Group receives a non-refundable deposit ahead of transferring goods and services or before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the contract exceeds the amount of the deposit. The amount of the deposit was negotiated on a case by case basis with customers.

Movements in contract liabilities

HK$ million	**2018**
At 1 January	**1,461**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(1,269)**
Increase in contract liabilities as a result of billing in advance of undelivered goods and services	**1,868**
At 31 December	**2,060**

24. DEBTORS AND OTHER CURRENT ASSETS

HK$ million	Note	2018	2017
Trade debtors and bills receivable, net of loss allowance		**3,875**	4,502
Other receivables, deposits and prepayments	24(d)	**3,159**	3,087
Finance lease receivables	24(b)	**931**	869
Assets held on behalf of principals	24(e)	**650**	77
Contract assets	23(a)	**110**	–
Gross amounts due from customers for contract work	24(c)	**–**	6
Amounts due from holders of non-controlling interests	24(d)	**83**	16
Amounts due from joint ventures	24(d)	**12**	12
Amounts due from fellow subsidiaries	24(d)	**4**	1
Amounts due from associates	24(d)	**1**	6
Amount due from an intermediate holding company	24(d)	**–**	1
Derivative financial instruments		**14**	15
		8,839	8,592
Less: Non-current finance lease receivables	24(b)	**(416)**	(437)
Non-current trade debtors	20	**–**	(7)
At 31 December		**8,423**	8,148

Apart from certain trade debtors and other receivables at 31 December 2018 of HK$149 million (2017: HK$138 million), all the amounts of trade debtors and other receivables are expected to be recovered or recognised as expenses within one year.

(a) Ageing analysis

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

HK$ million	2018	2017
Within 3 months	**3,364**	3,992
More than 3 months but within 1 year	**373**	361
Over 1 year	**138**	149
At 31 December	**3,875**	4,502

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

Reportable segments	**Credit terms in general**
Motor Business	Cash on delivery to 90 days
Consumer Products Business	Cash on delivery to 105 days

24. DEBTORS AND OTHER CURRENT ASSETS (CONTINUED)

(b) Finance lease receivables

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

2018

HK$ million	**Present value of the minimum lease payments**	**Total minimum lease payments**
Within 1 year	**515**	**567**
After 1 year but within 5 years	**416**	**452**
Unrealised future income on finance leases	**–**	**(88)**
Net investment in finance leases	**931**	**931**

2017

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

(c) Construction contracts

HK$ million	**2018**	2017
Contract costs incurred plus profits less losses	**–**	123
Progress billings	**–**	(122)
At 31 December	**–**	1
Representing:		
Gross amounts due from customers for contract work	**–**	6
Gross amounts due to customers for contract work (Note 27)	**–**	(5)
At 31 December	**–**	1

24. DEBTORS AND OTHER CURRENT ASSETS (CONTINUED)

(d) The amounts due from an intermediate holding company, fellow subsidiaries, associates, joint ventures and holders of non-controlling interests are unsecured, non-interest bearing and recoverable on demand, except for, (1) an amount due from a holder of non-controlling interests of HK$11 million (2017: HK$13 million) which is interest bearing at 2% (2017: 2%) per annum as at 31 December 2018 and (2) an amount due from an associate of HK$5 million which was interest bearing at 3.5% per annum as at 31 December 2017 and has been recovered in 2018.

Included in "Other receivables, deposits and prepayments", there is a loan to a business partner of HK$22 million (2017: nil) which is interest bearing at 6% per annum as at 31 December 2018.

(e) At 31 December 2018, the Group has certain products at cost of HK$650 million (2017: HK$77 million) for which the Group has physical possession and a present obligation to pay the products and may return the unsold products to principals based on the terms of certain agreements entered into between those principals with the Group. Amount of HK$591 million has been reclassified from "Inventories" as a result of adopting HKFRS 15 as referred to in Note 1 (b)*(i)*.

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

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

HK$ million	Note	**2018**	2017
Cash and bank deposits		**1,093**	1,138
Less:			
Bank deposits with maturity over three months		**(3)**	–
Pledged deposits	26(d)	**(82)**	(69)
Bank overdrafts	26(b)	**(123)**	(56)
At 31 December		**885**	1,013

Included in cash and cash equivalents, HK$530 million (2017: HK$617 million) are denominated in Renminbi at 31 December 2018. Renminbi is not a freely convertible currency and the remittance of funds out of mainland China is subject to exchange restrictions imposed by the Government of the PRC.

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

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

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

HK$ million	Bank and other loans (Note 26)	Amounts due to / (from) and loan from holders of non-controlling interests (Notes 24, 27 and 28)	Derivative financial instrument held to hedge accounting assets (Note 32(c))	Total
At 1 January 2018	**6,871**	**289**	**(13)**	**7,147**
Proceeds from bank and other loans	**13,240**	**–**	**–**	**13,240**
Repayment of bank and other loans	**(13,231)**	**–**	**–**	**(13,231)**
Net repayment to holders of non-controlling interests	**–**	**(30)**	**–**	**(30)**
Interest paid	**(226)**	**–**	**–**	**(226)**
Total changes from financing cashflow	**(217)**	**(30)**	**–**	**(247)**
Exchange adjustments	**(32)**	**1**	**–**	**(31)**
Changes in fair values	**–**	**–**	**11**	**11**
	(32)	**1**	**11**	**(20)**
Other changes:				
Interest expenses on borrowings	**226**	**–**	**–**	**226**
Changes in working capital	**–**	**5**	**–**	**5**
Total other changes	**226**	**5**	**–**	**231**
At 31 December 2018	**6,848**	**265**	**(2)**	**7,111**

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

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

HK$ million	Bank and other loans (Note 26)	Amounts due to / (from) and loan from holders of non-controlling interests (Notes 24, 27 and 28)	Derivative financial instrument held to hedge accounting assets (Note 32(c))	Total
At 1 January 2017	7,379	228	(10)	7,597
Proceeds from bank and other loans	12,297	–	–	12,297
Repayment of bank and other loans	(13,437)	–	–	(13,437)
Net advance from holders of non-controlling interests	–	56	–	56
Interest paid	(192)	–	–	(192)
Total changes from financing cashflow	(1,332)	56	–	(1,276)
Exchange adjustments	74	(1)	–	73
Changes in fair values	–	–	(3)	(3)
	74	(1)	(3)	70
Other changes:				
Acquisition of subsidiaries	575	–	–	575
Disposal of subsidiaries	(17)	–	–	(17)
Interest expenses on borrowings	192	–	–	192
Changes in working capital	–	6	–	6
Total other changes	750	6	–	756
At 31 December 2017	6,871	289	(13)	7,147

26. BORROWINGS

HK$ million	Note	2018	2017
Bank loans	25(b), 26(a) and (b)	**6,688**	6,712
Bank overdrafts	26(a) and (b)	**123**	56
Other loans	25(b) and 26(c)	**160**	159
At 31 December		**6,971**	6,927

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

HK$ million	2018	2017
Within 1 year or on demand	**3,109**	2,705
After 1 year but within 2 years	**996**	2,237
After 2 years but within 5 years	**2,706**	1,826
	3,702	4,063
At 31 December	**6,811**	6,768

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

HK$ million	Note	2018	2017
Bank overdrafts			
– secured		**–**	2
– unsecured		**123**	54
	25(a)	**123**	56
Bank loans			
– secured		**–**	46
– unsecured		**6,688**	6,666
		6,688	6,712
At 31 December		**6,811**	6,768

(c) Other loans are secured by plant and equipment, inventories and other deposits and are repayable within one year or on sales of designated inventories. Certain other loans are also secured by corporate guarantees granted by holders of non-controlling interests at 31 December 2018 and 2017.

26. BORROWINGS (CONTINUED)

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

HK$ million	Note	2018	2017
Inventories		**137**	170
Bank deposits	25(a)	**82**	69
Debtors and other current assets		**56**	65
Lease prepayments		**–**	41
Property, plant and equipment		**–**	27
At 31 December		**275**	372

The Company's and certain subsidiaries' unsecured bank loans are subject to the fulfillment of covenants mainly relating to the Group's and certain subsidiaries' financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2018 and 2017, there was no breach of loan agreement terms.

27. CREDITORS AND OTHER CURRENT LIABILITIES

HK$ million	Note	2018	2017
Trade creditors and bills payable	27(a)	**3,565**	3,705
Other payables and accrued charges	27(c)*(i)*	**2,533**	4,248
Contract liabilities and advance payments from customers	23(b)	**1,998**	–
Gross amounts due to customers for contract work	24(c)	**–**	5
Amounts due to holders of non-controlling interests	27(b)	**246**	232
Amounts due to associates	27(b)	**19**	16
Amounts due to fellow subsidiaries	27(b)	**19**	–
Amounts due to joint ventures	27(b)	**–**	3
Provision for product rectification	27(d)	**55**	57
Forward liabilities	28*(i)*	**219**	–
Put option written on non-controlling interests	27(c)*(ii)*	**30**	172
Derivative financial instruments		**2**	4
At 31 December		**8,686**	8,442

Apart from certain creditors and other current liabilities at 31 December 2018 of HK$48 million (2017: HK$26 million), all the amounts of creditors and other current liabilities are expected to be settled or recognised as income within one year or are payable on demand.

27. CREDITORS AND OTHER CURRENT LIABILITIES (CONTINUED)

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

HK$ million	**2018**	2017
Current or within 1 month	**3,355**	3,389
More than 1 month but within 3 months	**151**	191
More than 3 months but within 6 months	**29**	53
Over 6 months	**30**	72
At 31 December	**3,565**	3,705

(b) The amounts due to fellow subsidiaries, associates, joint ventures and holders of non-controlling interests are unsecured, non-interest bearing and repayable on demand, except for an amount due to a holder of non-controlling interests of HK$23 million (2017: HK$23 million) which is interest bearing at 2% per annum as at 31 December 2018 and 2017.

(c) *(i)* As a result of acquisition of certain motor dealerships in 2017, a consideration payable of RMB249 million in 2017 was fully settled during the year ended 31 December 2018 (approximately HK$309 million).

(ii) At 31 December 2018, the balance of HK$30 million is in relation to the acquisition of motor dealerships as referred to in Note 27(c)*(i)* above. The balance at 31 December 2017 was in relation to the acquisition of Gilman Group Limited and Leader Synergy Limited (collectively known as "Gilman Group") which was exercised and consideration of HK$173 million was paid in 2018.

(d) Provision for product rectification

The movements of provision for product rectification are as follows:

HK$ million	**2018**	2017
At 1 January	**57**	71
Exchange adjustments	**–**	1
Additional provision made	**32**	44
Reversal of provision	**(8)**	(32)
Provision utilised	**(26)**	(27)
At 31 December	**55**	57

Under the terms of certain sales agreements with customers and service agreements with manufacturers, the Group agrees to rectify product defects within a period not more than seven years from the date of sale. Provision is established to meet liabilities as they fall due and made based on the best estimates of the expected settlements under these agreements in respect of sales made prior to the end of the reporting period. The amount of provision takes into account the recent claim experience and provision is only made where it is probable that an outflow of resources will be required to settle the claim.

28. OTHER NON-CURRENT LIABILITIES

HK$ million	Note	2018	2017
Loans from holders of non-controlling interests		**102**	73
Contract liabilities	23(b)	**62**	–
Derivative financial instruments		**9**	–
Put options written on non-controlling interests		**4**	35
Forward liabilities	*(i)*	**–**	230
At 31 December		**177**	338

Note:
(i) Being forward liabilities in relation to the acquisition of Motor dealerships in 2017.

29. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and liabilities recognised

The components of deferred tax (assets) / liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

HK$ million	Depreciation allowances in excess of related depreciation	Revaluation arising from business combinations (other than investment properties)	Revaluation of investment properties	Tax losses	Undistributed profits	Others	Total
At 1 January 2017	76	169	129	(63)	27	(18)	320
Exchange adjustments	3	6	5	(2)	–	(2)	10
Business combination	–	272	–	–	–	–	272
(Credited) / charged to the consolidated statement of profit or loss (Note 8(a))	(17)	(13)	(105)	30	(9)	(26)	(140)
Charged to other comprehensive income	–	–	1	–	–	2	3
At 31 December 2017	62	434	30	(35)	18	(44)	465
At 1 January 2018	**62**	**434**	**30**	**(35)**	**18**	**(44)**	**465**
Impact on initial application of HKFRS 15	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
At 1 January 2018	**62**	**434**	**30**	**(35)**	**18**	**(52)**	**457**
Exchange adjustments	**–**	**(16)**	**(1)**	**–**	**–**	**–**	**(17)**
(Credited) / charged to the consolidated statement of profit or loss (Note 8(a))	**(1)**	**(20)**	**1**	**(14)**	**(8)**	**3**	**(39)**
At 31 December 2018	**61**	**398**	**30**	**(49)**	**10**	**(49)**	**401**

29. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

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

Represented by:

HK$ million	**2018**	2017
Deferred tax assets	**(98)**	(84)
Deferred tax liabilities	**499**	549
At 31 December	**401**	465

(b) Deferred tax assets not recognised

At 31 December 2018, the Group had not recognised deferred tax assets in respect of the cumulative tax losses of HK$3,213 million (2017: HK$3,248 million) and temporary differences of HK$74 million (2017: HK$94 million) as utilisation of them may not be probable. Tax losses in certain tax jurisdictions of HK$2,813 million (2017: HK$2,476 million) will expire within the next five years. The remaining balance of tax losses has no expiry date under the current tax legislation.

(c) Deferred tax liabilities not recognised

At 31 December 2018, there were temporary differences of HK$4,374 million (2017: HK$4,560 million) related to the undistributed profits of subsidiaries. Deferred tax liabilities of HK$236 million (2017: HK$249 million) have not been recognised in respect of the tax payable upon the distribution of these undistributed profits to Hong Kong. The Company controls the dividend policy of these subsidiaries and it has been determined that these undistributed profits will not be distributed to Hong Kong in the foreseeable future.

30. CAPITAL AND RESERVES

(a) Share capital

	2018		2017	
	Number of shares (in million)	**HK$ million**	Number of shares (in million)	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**1,847**	**1,535**	1,832	1,477
Shares issued in respect of scrip dividends (Note)	**39**	**134**	15	58
At 31 December	**1,886**	**1,669**	1,847	1,535

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

Note:
On 18 July 2018 and 25 October 2018, the Company issued and allotted 18,756,817 shares and 20,228,204 shares at an issue price of HK$3.9577 per share and HK$2.9488 per share respectively in respect of the final dividend for the year ended 31 December 2017 and the interim dividend for the year ended 31 December 2018 under the scrip dividend scheme. The shares so issued ranked pari passu in all respects with the then existing issued shares except for the entitlement to the said dividend.

As a result of and in accordance with Section 37 of Schedule 11 to the Hong Kong Companies Ordinance, during the year ended 31 December 2018, the Company's share capital increased by approximately HK$134 million.

On 24 October 2017, the Company issued and allotted 14,905,804 shares at an issue price of HK$3.862 per share in respect of the interim dividend for the year ended 31 December 2017 under the scrip dividend scheme. The 14,905,804 shares so issued ranked pari passu in all respects with the then existing issued shares except for the entitlement to the said interim dividend.

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

30. CAPITAL AND RESERVES (CONTINUED)

(b) General reserve

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

For the subsidiaries in mainland China, pursuant to the relevant rules and regulations, the general reserve can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the equity shareholders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(ii) Adjustments arising from change in equity interest in a subsidiary that do not result in a loss of control are included in the general reserve.

(iii) During the year ended 31 December 2018, the general reserve was credited by HK$1 million (2017: HK$3 million) in respect of the fair value adjustment on put option written on non-controlling interests (Note 32(e)*(i)*).

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

(c) Capital reserve

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

(d) Statutory surplus reserve

Pursuant to the relevant rules and regulations in mainland China, those subsidiaries which are domestic enterprises in mainland China are required to transfer no less than 10% of their profit after taxation, as determined under accounting regulations in mainland China, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

30. CAPITAL AND RESERVES (CONTINUED)

(e) Merger reserve

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

(f) Share option reserve

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

(g) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong as well as the effective portion of any foreign exchange differences arising from hedge of the net investment in a foreign operation (Notes 1(h)*(ii)* and 1(z)).

(h) Asset revaluation reserve

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

(i) Hedging reserve

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

(j) Distributable reserves

The distributable reserves of the Company at 31 December 2018 were HK$4,864 million (2017: HK$4,948 million).

(k) Capital management

The Group's primary objectives are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to optimise the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

Consistent with industry practices and prior years, the Group monitors its capital structure by reference to the net gearing ratio which is defined as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank deposits. Total capital is calculated as shareholders' funds (i.e. total equity attributable to shareholders of the Company) plus net debt.

30. CAPITAL AND RESERVES (CONTINUED)

(k) Capital management (continued)

The net gearing ratios at 31 December 2018 and 2017 are as follows:

HK$ million	Note	2018	2017
Total borrowings	26	**6,971**	6,927
Less: cash and bank deposits	25	**(1,093)**	(1,138)
Net debt		**5,878**	5,789
Shareholders' funds		**10,282**	10,145
Total capital		**16,160**	15,934
Net gearing ratio		**36.4%**	36.3%

31. EQUITY COMPENSATION BENEFITS

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

Date of grant		**Number of share options granted**	**Exercise price per share**	**Number of share options outstanding at 31 December**	
			HK$	**2018**	2017
30 April 2014	Note	28,200,000	4.930	**21,050,000**	22,950,000

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

31. EQUITY COMPENSATION BENEFITS (CONTINUED)

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

	2018		2017	
	Weighted average exercise price per share HK$	**Number of share options ('000)**	Weighted average exercise price per share HK$	Number of share options ('000)
Outstanding at 1 January	**4.930**	**22,950**	6.073	45,600
Lapsed during the year	**4.930**	**(1,900)**	7.231	(22,650)
Outstanding at 31 December	**4.930**	**21,050**	4.930	22,950
Exercisable at 31 December	**4.930**	**21,050**	4.930	22,950

The share options outstanding at 31 December 2018 are with a weighted average remaining life of 0.3 year (2017: 1.3 years).

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to debtors and other current assets and derivative financial instruments entered into for hedging purposes. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk in respect of debtors and other current assets is limited since the Group's customer base is comprised of a large number of customers and they are dispersed across different industries and geographical locations. Accordingly, the Group has no significant concentration of credit risk. In addition, credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Group does not obtain collateral from customers.

Transactions involving derivative financial instruments are with counter parties with sound credit ratings and the Group does not expect any significant credit risk.

Except for the financial guarantees as set out in Note 34, the Group does not provide any other guarantee which would expose the Group to credit risk.

The Group measures loss allowances for trade debtors and bills receivables, finance leases receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors and bills receivables, finance leases receivables and contract assets as at 31 December 2018:

HK$ million	Expected loss rate	**Gross carrying amount**
Current (not past due)	0.01-0.1%	**4,225**
1-90 days past due	0.1-1.0%	**583**
91-180 days past due	1.0-2.5%	**63**
181-270 days past due	2.5-7.5%	**59**
271-365 days past due	5-15%	**21**
More than 1 year past due	25-100%	**45**
		4,996

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

At 31 December 2018, the Group provided HK$80 million loss allowance for trade debtors and bills receivables, finance leases receivables and contract assets, based on the above provision matrix.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(m)*(i)* – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables and finance leases receivables of HK$64 million and HK$20 million, respectively, were determined to be impaired.

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

Certain trade debtors with a carrying amount of HK$420 million at 31 December 2017 were past due over one month but not impaired. The ageing analysis of these trade debtors was as follows:

HK$ million	2017
Overdue for more than 1 month but within 3 months	234
Overdue for more than 3 months but within 1 year	155
Overdue over 1 year	31
At 31 December	420

Finance leases receivables with a carrying amount of HK$5 million at 31 December 2017 were past due but not impaired.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (continued)

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade debtors and bills receivables, finance lease receivables and contract assets during the year is as follows:

HK$ million	**2018**	2017
Balance at 31 December 2017 under HKAS 39	**84**	N/A
Impact on initial application of HKFRS 9 (Note)	**–**	N/A
Adjusted balance at 1 January	**84**	97
Exchange adjustments	**(1)**	4
Amounts written off during the year	**(30)**	(68)
Net impairment losses recognised during the year	**27**	51
Balance at 31 December	**80**	84

Note: The initial application of HKFRS 9 is immaterial.

The following significant changes in the gross carrying amounts of trade debtors and bills receivables, finance lease receivables and contract assets contributed to the decrease in the loss allowance during the year ended 31 December 2018:

– Decrease in gross carrying amounts of trade debtors and bills receivables and contract assets of HK$531 million resulted in decrease in loss allowance of HK$14 million; offset by

– Increase in gross carrying amounts of finance lease receivables of HK$72 million resulted in increase in loss allowance of HK$10 million.

(b) Liquidity risk

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

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

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

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

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

2018

HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	Total
Borrowings	(3,513)	(1,122)	(2,799)	(7,434)
Creditors and other current liabilities	(6,486)	–	(48)	(6,534)
Other non-current liabilities	–	(16)	(99)	(115)
	(9,999)	(1,138)	(2,946)	(14,083)
Derivatives settled gross:				
Foreign currency forward contracts				
– outflow	(309)	–	–	(309)
– inflow	309	–	–	309
	–	–	–	–
Cross currency swap				
– outflow	(628)	–	–	(628)
– inflow	632	–	–	632
	4	–	–	4
	4	–	–	4
Financial guarantees issued:				
Maximum amount guaranteed (Note 34 (a))	31	–	–	31

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

2017

HK$ million	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	Over 5 years	Total
Borrowings	(2,934)	(2,320)	(1,925)	–	(7,179)
Creditors and other current liabilities	(6,691)	(21)	(5)	–	(6,717)
Other non-current liabilities	–	(274)	(59)	(5)	(338)
	(9,625)	(2,615)	(1,989)	(5)	(14,234)
Derivatives settled gross:					
Foreign currency forward contracts					
– outflow	(606)	–	–	–	(606)
– inflow	604	–	–	–	604
	(2)	–	–	–	(2)
Cross currency swap					
– outflow	(7)	(628)	–	–	(635)
– inflow	10	629	–	–	639
	3	1	–	–	4
	1	1	–	–	2
Financial guarantees issued:					
Maximum amount guaranteed (Note 34(a))	34	–	–	–	34

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank advances and other borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group aims to maintain an appropriate mix of fixed and floating rate borrowings in order to stabilise interest costs. Interest rate hedging ratio is determined after taking into consideration the market trend and the Group's cash flow pattern. Interest rate swap, forward rate agreement, cross currency swap and other instruments may be employed to hedge exposures or to modify the interest rate characteristics of the Group's borrowings if necessary.

At 31 December 2018, the Group had outstanding interest rate swaps with a notional contract amount of HK$1,502 million (2017: HK$1,152 million) to reduce the impact of interest rate fluctuation on the unsecured bank borrowings. The swaps will mature within 2019 to 2022 (2017: within 2018 to 2019) and have effective interest rates ranging from 0.83% to 3.57% per annum (2017: 0.83% to 1.51% per annum).

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

At 31 December 2018, the Group had a HKD / USD cross currency swap with a notional contract amount of US$80 million to hedge the interest rate and foreign currency exposures of an unsecured bank borrowing which is denominated in United States dollars. The cross currency swap will mature in 2019 matching with the maturity and the currency of the underlying bank borrowing.

At 31 December 2018, the Group recognised the fair value of outstanding interest rate swaps of HK$4 million liabilities (2017: HK$9 million assets) and cross currency swap of HK$6 million assets (2017: HK$4 million assets) as derivative financial instruments.

Sensitivity analysis

At 31 December 2018, it is estimated that a general increase / decrease of 100 basis points in interest rates, with all other variables held constant, would decrease / increase the Group's profit after taxation and retained profits by approximately HK$67 million (2017: HK$42 million). Other components of consolidated equity would not be affected by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the financial instruments in existence at that date. The analysis is performed on the same basis for 2017.

(d) Currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in currencies other than the functional currency of the operations to which the transactions relate. The foreign currency exposure is kept at an acceptable level by entering into foreign currency forward contracts and they are usually matched with anticipated future cash flows in foreign currencies. Certain of these foreign currency forward contracts are designated as cash flow hedges. All of the foreign currency forward contracts have maturities of less than one year from the reporting date. At 31 December 2018, the Group had foreign currency forward contracts hedging highly probable forecast transactions with a net fair value of HK$3 million assets (2017: HK$2 million liabilities) recognised as derivative financial instruments.

Except for the borrowings designated to hedge the net investment in a foreign operation (as described below), bank borrowings are generally matched with the functional currency of each operating entity, and cross currency swap (Note 32(c)) is being entered into by the Group to keep the foreign currency exposure at an acceptable level. Given these, management does not expect any significant foreign currency risk associated with the Group's borrowings.

Certain bank borrowings denominated in Japanese Yen are designated as a hedge of the net investment in a subsidiary in Japan. The carrying amount and the fair value of these bank borrowings at 31 December 2018 was HK$85 million (2017: HK$83 million).

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

The following table details the Group's exposure at the end of the reporting period to foreign currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate, except that the exposure arising from the bank borrowings that are designated as a hedge of the net investment in a foreign operation is excluded:

2018

in millions	**United States dollars**	**Renminbi**	**Euro**	**Japanese Yen**	**Pound Sterling**	**Australian dollars**	**Hong Kong dollars**
Other non-current assets	**–**	**–**	**–**	**–**	**–**	**10**	**–**
Debtors and other current assets	**4**	**30**	**–**	**72**	**–**	**–**	**1**
Cash and bank deposits	**2**	**5**	**1**	**1,300**	**–**	**–**	**41**
Borrowings	**(212)**	**(72)**	**–**	**–**	**–**	**–**	**–**
Creditors and other current liabilities	**(51)**	**(13)**	**–**	**(414)**	**(23)**	**(1)**	**(224)**
Net exposure arising from recognised assets and liabilities	**(257)**	**(50)**	**1**	**958**	**(23)**	**9**	**(182)**
Highly probable forecast purchases	**(7)**	**(3)**	**(8)**	**(4,802)**	**–**	**(2)**	**–**
Foreign currency forward contracts	**6**	**2**	**5**	**1,663**	**–**	**1**	**–**
Net exposure arising from forecast transactions	**(1)**	**(1)**	**(3)**	**(3,139)**	**–**	**(1)**	**–**
Overall net exposure	**(258)**	**(51)**	**(2)**	**(2,181)**	**(23)**	**8**	**(182)**

2017

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

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

Sensitivity analysis

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

HK$ million	**2018**	2017
Renminbi	**(3)**	(11)
Euros	**(1)**	(3)
Japanese Yen	**(6)**	(14)
Pound Sterling	**(10)**	(2)
Australian dollars	**2**	3

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

It is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would not be materially affected by any change in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after taxation measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2017.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value

(i) Financial instrument carried at fair value

Fair value hierarchy

The fair value of each financial instrument is categorised across three levels of the "fair value hierarchy" defined in HKFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs (i.e. unadjusted quoted prices) in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs (i.e. observable inputs which fail to meet Level 1) and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

2018 HK$ million	**Level 2**	**Level 3**
Assets		
Financial assets at FVTPL	**–**	**54**
Derivative financial instruments	**14**	**–**
Liabilities		
Put options written on non-controlling interests	**–**	**(34)**
Derivative financial instruments	**(11)**	**–**
Forward liabilities	**–**	**(219)**

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

During the years ended 31 December 2018 and 2017, there were no transfers between levels. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value (continued)

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

Fair value hierarchy (continued)

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

For the year ended 31 December 2018

HK$ million	**Financial assets at FVTPL**	**Put options written on non-controlling interests**	**Forward liabilities**
At 1 January 2018	**61**	**(207)**	**(230)**
Exchange adjustments	**(6)**	**–**	**11**
Capitalised interest	**2**	**–**	**–**
Exercise of put option	**–**	**172**	**–**
Fair value adjustment credited to reserves	**–**	**1**	**–**
Fair value adjustment charged to profit or loss	**(3)**	**–**	**–**
At 31 December 2018	**54**	**(34)**	**(219)**

For the year ended 31 December 2017

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

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair value (continued)

(ii) Fair value measurements

The fair values of financial instruments are estimated as the present value of future cash flows, discounted at current market interest rates for similar interest-bearing bank borrowings, except for foreign currency forward contracts, interest rates swaps, cross currency swap, put option written on non-controlling interest and forward liabilities. All financial instruments are carried at amounts not materially different from their fair values at 31 December 2017 and 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 counter parties.

The fair value of financial assets at FVTPL is determined using the income approach for the non-derivative component and binomial option pricing model for the embedded derivative component. The significant unobservable inputs used in the fair value measurement are the discount rate of 16.9% at 31 December 2018 (2017: 6.6%) and volatility of 33.5% (2017: 38.6%). The fair value measurement is negatively correlated to the discount rate and positively correlated to the volatility.

The fair values of put options written on non-controlling interests and forward liabilities are estimated amount of the exercise price which are calculated pursuant to the terms of the share purchase agreement for acquisition of Gilman Group and motor dealerships in 2017. The fair value measurement requires an estimation of post-acquisition profits and judgement on time value of money.

The put option written on non-controlling interests in respect of the acquisition of Gilman Group was exercised during the year ended 31 December 2018. The fair value measurement on 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.

The fair value of forward liabilities arising from the acquisition of motor dealerships in 2017, 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 (2017: 0.7% to 7.2% per annum). The fair value measurement is positively correlated to the sales growth rates.

33. COMMITMENT

(a) Capital commitments

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

HK$ million	**2018**	2017
Contracted for		
– Capital expenditures	**248**	192
– Investment in an associate	**146**	268
At 31 December	**394**	460
Authorised but not contracted for		
– Capital expenditures	**165**	214
At 31 December	**165**	214

(b) Operating lease commitments

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

HK$ million	**2018**	2017
Within 1 year	**775**	592
After 1 year but within 5 years	**1,659**	1,084
After 5 years	**1,061**	955
At 31 December	**3,495**	2,631

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

34. CONTINGENT LIABILITIES

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

	2018		2017	
HK$ million	**Granted**	**Utilised**	Granted	Utilised
At 31 December	**59**	**31**	59	34

(b) At the end of the reporting period, a subsidiary has issued a guarantee of EUR1.2 million (2017: EUR1.2 million) to a trade creditor of an associate.

(c) At the end of the reporting period, the directors do not consider it is probable that a claim will be made against the Company or any of its subsidiaries under the above guarantees.

35. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Recurring transactions

HK$ million	2018	2017
Sales to fellow subsidiaries	17	–
Purchases from associates	375	351
Rental expenses to fellow subsidiaries	245	214

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

(b) Remuneration for key management personnel

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

(c) Operating lease commitments with fellow subsidiaries

Included in Note 33(b), there are total future minimum lease payments on properties under non-cancellable operating leases with fellow subsidiaries of CITIC Group which are payable as follows:

HK$ million	2018	2017
Within 1 year	302	88
After 1 year but within 5 years	595	–
Over 5 years	242	–
At 31 December	1,139	88

(d) Transactions with state-owned enterprises

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

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

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

36. HOLDING COMPANIES

At 31 December 2018, the directors considered the ultimate holding company of the Group to be CITIC Group Corporation, a wholly state-owned company established in the PRC. The intermediate holding company of the Group, CITIC Limited, which is incorporated and listed in Hong Kong, produces financial statements available for public use.

37. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

HK$ million	Note	2018	2017
Non-current assets			
Interests in subsidiaries		**9,280**	10,550
		9,280	10,550
Current assets			
Other receivables, deposits and prepayments		**–**	2
Amounts due from subsidiaries		**4,231**	2,168
Derivative financial instruments		**4**	8
Cash and bank deposits		**3**	2
		4,238	2,180
Current liabilities			
Borrowings		**2,703**	1,656
Other payables and accrued charges		**10**	8
Amounts due to subsidiaries		**1,012**	471
Current tax payable		**3**	–
		3,728	2,135
Net current assets		**510**	45
Total assets less current liabilities		**9,790**	10,595
Non-current liabilities			
Derivative financial instruments		**7**	–
Borrowings		**3,203**	4,063
		3,210	4,063
Net assets		**6,580**	6,532
Capital and reserves	37(a)		
Share capital		**1,669**	1,535
Other reserves		**4,911**	4,997
Total equity		**6,580**	6,532

Approved and authorised for issue by the board of directors on 26 February 2019.

Zhang Jijing
Director

Lai Ni Hium
Director

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

(a) Movements in components of equity

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

HK$ million	Note	Share capital (30(a))	General reserve (30(b))	Share option reserve (30(f))	Retained profits	Total
At 1 January 2017		1,477	22	80	4,040	5,619
Total comprehensive income for the year		–	–	–	1,019	1,019
Shares issued in respect of scrip dividend	30(a)	58	–	–	–	58
Share-based payments	7(b)	–	–	(3)	–	(3)
Lapse of share options		–	–	(50)	50	–
Dividends	11	–	–	–	(161)	(161)
At 31 December 2017		1,535	22	27	4,948	6,532
At 1 January 2018		**1,535**	**22**	**27**	**4,948**	**6,532**
Total comprehensive income for the year		**–**	**–**	**–**	**228**	**228**
Shares issued in respect of scrip dividend	30(a)	**134**	**–**	**–**	**–**	**134**
Lapse of share options		**–**	**–**	**(2)**	**2**	**–**
Dividends	11	**–**	**–**	**–**	**(314)**	**(314)**
At 31 December 2018		**1,669**	**22**	**25**	**4,864**	**6,580**

38. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Comparative information is not restated based on the transition methods chosen, please refer to Note 1(b) for details.

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

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

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:

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.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

HKFRS 16, *Leases* (continued)

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. The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 33(b), at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$3,495 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 right-of-use assets and lease liabilities arising from operating leases on initial 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. The expected changes in accounting policies as described above on initial adoption of HKFRS 16 could have a material impact on the Group's financial statements from 2019 onwards.

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.

40. DETAILS OF PRINCIPAL SUBSIDIARIES

The following entities are the principal subsidiaries of the Group which, in the opinion of the directors, principally affect the results or net assets of the Group. To give details of all other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
Bayern Gourmet Food Company Limited		Hong Kong	HK$3,000,000	–	100	Food manufacturing and trading
Dah Chong Hong (China) Limited		Hong Kong	HK$100,000	100	–	Investment holding and provision of management services
Dah Chong Hong (Japan) Limited		Japan	JPY480,000,000	–	100	Import and export of foodstuffs and motor vehicles
Dah Chong Hong, Limited		Hong Kong	HK$50,000,000	100	–	Investment holding; import, retail and export of foodstuffs, electrical appliances and other consumer products
Dah Chong Hong Motors (China) Limited		Hong Kong	HK$40,000,000	–	100	Investment holding
Dah Chong Hong (Motor Leasing) Limited		Hong Kong	HK$100,000	–	100	Motor leasing
Dah Chong Hong (Motor Service Centre) Limited		Hong Kong	HK$200,000	–	100	Motor vehicle repairing service and spare parts trading
DCH Logistics Company Limited		Hong Kong	HK$100,000	–	100	Warehouse and logistics service
Gilman Group Limited		Hong Kong	HK$78,505,000	–	100	Trading of electrical appliances and provision of after sales services
Gouriki Property Development Co., Ltd.		Japan	JPY10,000,000	–	100	Property investment
Honest Motors, Limited		Hong Kong	HK$3,000,000	–	100	Motor vehicle distributor
Integrated Market Services Asia Limited		Hong Kong	HK$2	–	100	Marketing and distribution of consumer products

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
Kunming Heyun Motor Trading Co., Ltd.	*(i)*	PRC	RMB150,000,000	–	100	Motor vehicle 4S dealership
Kunming Lianya Toyota Motor Sales And Services Co., Ltd	*(i)*	PRC	RMB200,000,000	–	100	Motor vehicle 4S dealership
Leo's Fine Food Company Limited		Hong Kong	HK$1,000,000	–	100	Food manufacturing and trading
DCH Auriga (Hong Kong) Limited		Hong Kong	HK$146,000,000	–	100	Distribution of consumer and pharmaceutical products
DCH Auriga (Singapore) Pte. Ltd.		Singapore	Ordinary SGD300,000 Preference SGD68,000	–	100	Distribution of customer and healthcare products
DCH Auriga (Thailand) Limited		Thailand	Ordinary THB16,000,000 Preference THB5,500,000, 25% paid up	–	100	Distribution of customer and healthcare products
DCH Auriga Holding Limited		British Virgin Islands	US$2	–	100	Distribution of customer and healthcare products
南京大昌行食品有限公司 (Nanjing DCH Food Company Limited)	*(i), (vi)*	PRC	US$41,384,856	–	100	Distribution of customer and healthcare products
Polyfood Food Service Co. Limited		Hong Kong	HK$1,500,000	–	100	Food manufacturing and trading
Premium Motors Limited		Hong Kong	HK$2	–	100	Motor vehicle dealer
Princess Yachts Greater China Limited		Hong Kong	HK$10,000	–	70	Sales and distribution of motor yachts and provision of after-sales services
Regal Motors, Limited		Hong Kong	HK$200,000	–	100	Motor vehicle distributor
Reliance Motors, Limited		Hong Kong	HK$3,000,000	–	100	Motor vehicle distributor

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
Sims Trading Company Limited		Hong Kong	HK$13,098,135	–	100	Wholesaling and distribution of fast moving consumer goods
Taipei Triangle Motors Limited		Taiwan	NTD200,000,000	–	100	Motor vehicle distributor
Triangle Auto Pte Ltd		Singapore	SGD3,000,000	–	100	Motor vehicle distributor
Triangle Motors Limited		Hong Kong	HK$3,000,000	–	100	Motor vehicle distributor
Yunnan Zhongchi Motor Sales And Services Co., Ltd.	*(i)*	PRC	RMB200,000,000	–	100	Motor vehicle 4S dealership
重慶市合翹汽車銷售服務有限公司 (Chongqing Heqiao Motors Sale and Service Limited)	*(i), (vi)*	PRC	RMB60,000,000	–	100	Motor vehicle 4S dealership
東莞大昌行深業豐田汽車銷售服務有限公司 (Dongguan DCH Shenye Toyota Motors Sale and Service Co., Ltd)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
佛山市合輝汽車銷售服務有限公司 (Foshan Hehui Motors Sale and Service Limited)	*(vi)*	PRC	RMB230,000,000	–	100	Motor vehicle 4S dealership
佛山駿安豐田汽車銷售服務有限公司 (Foshan Junan Toyota Motors Sale and Service Limited)	*(iii), (v), (vi)*	PRC	RMB10,000,000	–	49	Motor vehicle 4S dealership
廣東駿佳汽車服務有限公司 (Guangdong Denker Motor Service Company Limited)	*(i), (v), (vi)*	PRC	RMB50,000,000	–	49	Motor vehicle 4S dealership
廣東慎昌貿易有限公司 (Guang Dong Sims Trading Co., Ltd.)	*(i), (vi)*	PRC	RMB235,000,000	–	100	Wholesaling and distribution of fast moving consumer goods

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited)	*(i), (iii), (v), (vi)*	PRC	RMB30,000,000	–	49	Motor vehicle 4S dealership
廣州合駿汽車貿易有限公司 (Guangzhou Hejun Motors Trading Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
廣州駿佳凌志汽車銷售服務有限公司 (Guangzhou Junjia Lexus Motors Sale and Service Limited)	*(ii), (iv), (v), (vi)*	PRC	RMB30,000,000	–	27.5	Motor vehicle 4S dealership
廣州駿龍汽車有限公司 (Guangzhou Junlong Motors Limited)	*(i), (v), (vi)*	PRC	RMB12,000,000	–	50	Motor vehicle 4S dealership
湖南駿佳雷克薩斯汽車銷售服務有限公司 (Hunan Junjia Lexus Motors Sale and Service Limited)	*(i), (v), (vi)*	PRC	RMB30,000,000	–	50	Motor vehicle 4S dealership
江門市怡誠汽車銷售服務有限公司 (Jiangmen Yicheng Motors Sale and Service Limited)	*(i), (vi)*	PRC	RMB50,000,000	–	100	Motor vehicle 4S dealership
嘉興合信汽車銷售服務有限公司 (Jiaxing Hexin Motors Sale and Service Limited)	*(i), (vi)*	PRC	RMB50,000,000	–	100	Motor vehicle 4S dealership
柳州市合隆汽車銷售服務有限公司 (Liuzhou Helong Motors Sale and Service Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
上海大昌行眾賓汽車銷售服務有限公司 (Shanghai Dah Chong Hong Zhongbin Motors Sale and Service Limited)	(vi)	PRC	RMB212,000,000	–	100	Motor vehicle 4S dealership
上海駿佳雷克薩斯汽車銷售服務有限公司 (Shanghai Junjia Lexus Motors Sale and Service Limited)	(i), (v), (vi)	PRC	RMB21,500,000	–	50	Motor vehicle 4S dealership
上海慎昌貿易有限公司 (Shanghai Sims Trading Company Limited)	(i), (vi)	PRC	RMB185,000,000	–	100	Wholesaling and distribution of fast moving consumer goods
上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited)	(i), (vi)	PRC	RMB150,000,000	–	100	Motor vehicle 4S dealership
上海眾泰汽車銷售有限公司 (Shanghai Zhongtai Motor Sales Limited)	(vi)	PRC	RMB12,000,000	–	100	Motor vehicle 4S dealership
深圳潮鋒雷克薩斯汽車銷售服務有限公司 (Shenzhen Chaofeng Lexus Motors Sale and Service Limited)	(i), (vi)	PRC	RMB30,000,000	–	100	Motor vehicle 4S dealership
深圳市增特汽車貿易有限公司 (Shenzhen City Zengte Car Trading Co., Ltd.)	(i), (vi)	PRC	RMB75,500,000	–	100	Motor vehicle 4S dealership
駿佳行汽車服務(深圳)有限公司 (Shenzhen Junjiaxing Motor Service Limited)	(i), (v), (vi)	PRC	RMB20,000,000	–	49	Motor vehicle 4S dealership

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
深圳市盛業汽車銷售服務有限公司 (Shenzhen Shengye Toyota Motors Sale and Service Limited)	*(vi)*	PRC	RMB12,000,000	–	100	Motor vehicle 4S dealership
深圳市深業東本汽車銷售服務有限公司 (Shenzhen Shenye Dongfeng Honda Motors Sale and Service Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
深圳深業雷克薩斯汽車銷售服務有限公司 (Shenzhen Shenye Lexus Motors Sale and Service Limited)	*(vi)*	PRC	RMB90,000,000	–	100	Motor vehicle 4S dealership
深圳市深業汽車貿易有限公司 (Shenzhen Shenye Motors Trading Limited)	*(i), (vi)*	PRC	RMB25,000,000	–	100	Motor vehicle 4S dealership
深圳市深業豐田汽車銷售服務有限公司 (Shenzhen Shenye Toyota Motors Sale and Service Limited)	*(vi)*	PRC	RMB20,000,000	–	100	Motor vehicle 4S dealership
雲南奧昌汽車銷售服務有限公司 (Yunnan Aochang Motors Sale and Service Limited)	*(vi)*	PRC	RMB245,000,000	–	100	Motor vehicle 4S dealership
雲南聯迪汽車服務有限公司 (Yunnan Liandi Motors Service Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
湛江市大昌行合榮汽車銷售服務有限公司 (Zhanjiang DCH Herong Motors Sale and Service Limited)	*(vi)*	PRC	RMB10,000,000	–	100	Motor vehicle 4S dealership
湛江市大昌行駿浩汽車有限公司 (Zhanjiang DCH Junhao Motors Limited)	*(i), (vi)*	PRC	RMB225,000,000	–	100	Motor vehicle 4S dealership
湛江市大昌行駿華豐田汽車銷售服務有限公司 (Zhanjiang DCH Junhua Toyota Motors Sale and Service Limited)	*(vi)*	PRC	RMB6,000,000	–	100	Motor vehicle 4S dealership
湛江市大昌行駿凱汽車技術服務有限公司 (Zhanjiang DCH Junkai Motors Technology and Service Limited)	*(vi)*	PRC	RMB6,000,000	–	100	Motor vehicle 4S dealership
大昌行融資租賃(上海)有限公司 Dah Chong Hong Finance Lease (Shanghai) Co Ltd	*(i), (vi)*	PRC	RMB170,000,000	–	100	Motor Leasing & Finance Leasing
大昌行食品(上海)有限公司 DCH Food (Shanghai) Co., Ltd.	*(i), (vi)*	PRC	RMB41,000,000	–	100	Food trading and distribution
深圳市興業汽車有限公司 (Shenzhen Xingye Motors Limited)	*(vi)*	PRC	RMB20,000,000	–	100	Motor vehicle 4S dealership
浙江慈吉之星汽車有限公司 (Zhejiang Ciji Zhixing Motors Limited)	*(vi)*	PRC	RMB250,000,000	–	80	Motor vehicle 4S dealership
慈溪市馳奧汽車銷售有限公司 (Cixi Chiao Motors Sale Limited)	*(vi)*	PRC	RMB100,000,000	–	80	Motor vehicle 4S dealership

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Note	Place of incorporation / establishment / operation	Issued share capital / paid-up capital	Effective percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
江門市合禮汽車銷售服務有限公司 (Jiangmen Heli Motors Sale and Service Limited)	*(i), (vi)*	PRC	RMB250,000,000	–	100	Motor vehicle 4S dealership
寧海慈吉之星汽車有限公司 (Ninghai Ciji Zhixing Motors Limited)	*(vi)*	PRC	RMB90,000,000	–	100	Motor vehicle 4S dealership
湛江市駿誠汽車銷售服務有限公司 (Zhanjiang Juncheng Motors Sale and Service Limited)	*(vi)*	PRC	RMB12,000,000	–	100	Motor vehicle 4S dealership
江門市合宏汽車銷售服務有限公司 (Jiangmen Hehong Motors Sale and Service Limited)	*(vi)*	PRC	RMB160,000,000	–	100	Motor vehicle 4S dealership
寧波慈溪駿佳雷克薩斯汽車銷售服務有限公司 (Ningbo Cixi Junjia Lexus Motors Sale and Service Limited)	*(i), (v), (vi)*	PRC	RMB50,000,000	–	50	Motor vehicle 4S dealership
河源市深業汽車貿易有限公司 (Heyuan Shenye Motors Trading Limited)	*(vi)*	PRC	RMB15,000,000	–	100	Motor vehicle 4S dealership
紹興大昌行駿康汽車銷售服務有限公司 (Shaoxing DCH Junkang Motors Sale and Service Limited)	*(i), (vi)*	PRC	HK$67,678,000	–	100	Motor vehicle 4S dealership

40. DETAILS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

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

(ii) The equity interests of this entity are held by a PRC company which has the legal capacity under the regulations to be shareholder for the benefits of the Group.

Historically, the PRC rules and regulations restricted foreign ownership of companies in certain industries. The Group has been conducting its operations in these industries through contractual arrangements with various companies incorporated in the PRC (i.e. OPCOs) which are owned by the persons or PRC companies which have the legal capacity under the regulations to be shareholders for the benefits of the Group (i.e. Registered Owners).

The Group does not have direct equity interests in these OPCOs. However, the Group has implemented a series of contractual arrangements with the Registered Owners of these OPCOs, such that:

– The Group is entitled to enjoy all the economic benefits of the OPCOs. All the dividends, capital bonus or any other assets distributed to the respective Registered Owners by the respective OPCOs are required to be transferred to the Group at nil consideration within three working days after such distribution;

– The Group is granted an exclusive right to acquire, to the extent permissible under the PRC laws, equity interests in the OPCOs at nil consideration or at a nominal price; and

– The respective Registered Owners are required to consult with and follow the instructions of the Group, whenever they exercise their rights as the equity shareholders of the OPCOs.

As a result of the above contractual arrangements, the Group has power over the OPCOs, with exposure or rights to variable returns from its involvement with the OPCOs and the ability to affect the amount of those returns. Accordingly, the financial results and positions of OPCOs have been consolidated into the Group since their respective dates of establishment or acquisition.

(iii) The Group holds 50% economic interest.

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

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

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

MAJOR PROPERTIES HELD BY THE GROUP

As at 31 December 2018

MAJOR PROPERTIES HELD FOR INVESTMENT

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
1.	Ground, 2nd, 3rd, 4th and 5th Floors, Front Portion, 11 Mok Cheong Street, Tokwawan, Kowloon, Hong Kong Situated within KIL No.7630	2027	100	773*	Industrial
2.	Shop A-9 on Ground Floor, Kwai Chung Centre, 102 Kwai Hing Road, Kwai Chung, New Territories, Hong Kong 13/1,706th shares of and in KCTL No.294	2047	100	53*	Shop
3.	Lot No.T7-1, located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, 2nd Storey and Factory No.1, No.10, Jiangyu Road, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	5,161	Office and factory
4.	Shanghai International Automobile City, No.789 Anchi Road, Jiading District, Shanghai, The People's Republic of China	2043	100	3,667	Commercial
5.	Haiwang Hatchery Plant at Haiwang Village, Huinan Town, Pudong New District, Shanghai, The People's Republic of China	2048	100	2,053	Industrial

As at 31 December 2018

Address / Lot no.		Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
6.	Xing Guang Farm, Xingguang Village, Zhuqiao Town, Pudong New District, Shanghai, The People's Republic of China	2048	100	6,041	Industrial
7.	(West of the Jiujiang International Automobile City), No.171 Jiu Rui Avenue, Jiujiang City, Jiangxi Province, The People's Republic of China	2050	100	6,021	Commercial
8.	Hiro-o Garden Hills, South Hill D-507, Hiro-o 4-chome, Shibuya-ku, Tokyo, Japan	Freehold	100	218 plus 5 area for storage and 19 area for parking	Residential
9.	Dah Chong No.2 Building, 18-2, Roppongi, 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	1,711	Commercial / office
10.	Land No.346-22, Azateradani, Hino-Cho, Nishiwaki-shi, Hyogo Prefecture, Japan	Freehold	100	6,300 (land)	Vacant site
11.	Land No.689, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	509 (land)	Vacant site
12.	Land No.692, Azazendana, Higashiodaka, Isumi-shi, Chiba Prefecture, Japan	Freehold	100	694 (land)	Vacant site

As at 31 December 2018

MAJOR PROPERTIES HELD FOR OWNER-OCCUPATION

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
1.	1st Floor, Front Portion, 11 Mok Cheong Street, Tokwawan, Kowloon, Hong Kong Situated within KIL No.7630	2027	100	220*	Storage
2.	Kiu Tau Wai, Ping Shan, Yuen Long, New Territories, Hong Kong Lot No.423 in DD127	2059	100	9,489	Motor service centre
3.	12th Floor, Union Park Centre, 771-775 Nathan Road, Mong Kok, Kowloon, Hong Kong 493/10,000th shares of and in the Remaining Portions of KIL Nos.2570, 2571 and 2572	2080	100	272*	Office
4.	67-73 Fuk Hi Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong Subsections 1 and 2 of Section A of Yuen Long Town Lot No.313 and Extensions thereto and Section O of YLTL No.313 and Extensions thereto	2047	100	47,299	Logistics and food processing complex
5.	Lot No. 2014-11, West of Huan Dao West Road, Hengqin New Area, Zhuhai City, Guangdong Province, The People's Republic of China	2065	100	25,000 (land)	Site for logistics centre

As at 31 December 2018

Address / Lot no.		Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
6.	Lot No.T7-1, located in Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, 1st and 3rd Storey, No.10, Jiangyu Road, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	1,219	Storage and office
7.	Lot T7-3, No.19, Yingang Avenue, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	12,678	Food processing and warehouse
8.	Lot T7-5, No.6, Jiangyu Road and No.28 Yinzhou Avenue, Jinguzhou, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	17,715	Food processing, warehouse and office
9.	Lot T7-6, No.28, Yinzhou Avenue, Huicheng, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2054	100	8,378	Warehouse

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2018

Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
10. Lot No.T7-2, Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, No.21, Yingang Avenue, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	6,859	Cold storage, warehouse and food processing centre
11. Lot No.T-10-2, Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, No.2 Fuhuei Road Jhih Yi, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	49,079	Partially developed with logistics centre
12. Lot No.T-10-2, No.2 Fuhuei Road Jhih Yi, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	9,995	Warehouse
13. Lot No.T18, Lingang Industrial District, Jinguzhou Economic Development Experimental Zone, Xinhui District, Jiangmen, Guangdong Province, The People's Republic of China	2055	100	10,179	Industrial
14. No.51 Wanbao South Street, Zhong Cun Jie, Panyu District, Guangzhou City, Guangdong Province, The People's Republic of China	2046	100	6,939	Cold storage and office

As at 31 December 2018

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
15.	No.522 Bailong Road, Yunshan Village, Jinma Town, Guandu District, Kunming, Yunnan Province, The People's Republic of China	2045	100	6,961	4S shop
16.	No.258 Nangang Gong Road, Huinan Town, Pudong New District, Shanghai, The People's Republic of China	2048	100	9,696	Office
17.	Lot No.2006-13, West of Wai Huan East Road, Yu Xing Town, Jia Xing City, Zhejiang Province, The People's Republic of China	2046	100	5,500	4S shop
18.	(Jiu Qu) No.1338 Quang Yi Road, Dong Shan Jie Dao, Nanhu District, Jia Xing City, Zhejiang Province, The People's Republic of China	2046	100	9,245	4S shop
19.	Ling Gang Section, No.178 Zhongshan Six Road, Zhongshan Huo Ju Development Zone, Zhongshan City, Guangdong Province, The People's Republic of China	2043	90	4,053	4S shop
20.	(7 Kilometers North of RT-Mart), No.998 Huchong Road, Kan Dun Jie Dao, Cixi City, Ningbo, Zhejiang Province, The People's Republic of China	2049	50	9,595	4S shop

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2018

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
21.	(Hu Xi Xian 4#–1 Di Kuai), Heng He Zhen Shang Jian Shancun, Cixi City, Ningbo, Zhejiang Province, The People's Republic of China	2048	80	3,270 parking area	4S shop
22.	(Hu Xi Xian 4#–2 Di Kuai), Heng He Zhen Shang Jian Shancun, Cixi City, Ningbo, Zhejiang Province, The People's Republic of China	2048	80	8,819	4S shop
23.	Gu Lu Tou Cun, Li Zhou Jiedao, Yuyao City, Ningbo, Zhejiang Province, The People's Republic of China	2055	100	16,093 (land)	Under construction
24.	Gu Lu Tou Cun, Li Zhou Jiedao, Yuyao City, Ningbo, Zhejiang Province, The People's Republic of China	2058	100	909 (land)	Under construction
25.	No.2002, Xing Haibei Road, Mo Lin Jiedao, Ninghai Xian, Ningbo, Zhejiang Province, The People's Republic of China	2052	80	22,195	4S shop
26.	The southeast corner of Intersection of the No.329 National Road and Tanggong Road, Paojiang Industrial Zone, Yuecheng District, Shaoxing City, Zhejiang Province, The People's Republic of China	2046	100	6,981	4S shop

As at 31 December 2018

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
27.	Land No.712-2, Zi Wu Road, Qu Jing City, Yunnan Province, The People's Republic of China	2047	100	3,900	4S shop
28.	No.508 Bai Long Road, Liu Jia Ying Village, Jinma Town, Kunming City, Yunnan Province, The People's Republic of China	2048	100	4,608	4S shop
29.	Rooms 101, 201 and 301, 1 Danyuan, 102 Chuang, Jumin Xiaozu 320 Guodao Nance, He Qian Shequ Shang San, Xia San, Lu Cheng Town, Chuxiong City, Yunnan Province, The People's Republic of China	2053	100	4,445	4S shop
30.	9 and 11 She, Lijiatuo, Chi Lung Chuen, Banan District, Chongqing, The People's Republic of China	2047	100	16,904	4S shop
31.	Long Huang Qiao 320 State Road, Shuangqing District, Shaoyang, Hunan Province, The People's Republic of China	2051	100	7,762	4S shop

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2018

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
32.	Units 1811 to 1813 and Units 1815 to 1816 on 18th Floor, Units 1901 to 1903 and Units 1905 to 1913 and Units 1915 to 1920 on 19th Floor, Units 2001 to 2003 and Units 2005 to 2013 and Units 2015 to 2020 on 20th Floor, Units 2701 to 2703 and Units 2705 to 2713 and Units 2715 to 2720 on 27th Floor, Enterprise Square, No.228 Mei Yuen Road, Shanghai, The People's Republic of China	2048	100	5,369	Office
33.	Carparking Spaces Nos. 8, 17, 18, 19, 25, 27, 28, 31, 38, 39, 40 & 41 on Basement 1, Carparking Spaces Nos.91 & 97 on Basement 2, Enterprise Square, No.216 Mei Yuen Road, Shanghai, The People's Republic of China	2048	100	807 (14 car parking spaces)	Car parking
34.	Whole Single Storey Block, No.357 Ji Zhan Road, Shanghai, The People's Republic of China	2056	100	22,109	Warehouse
35.	Nos.568-36, Erkan Rd., Waipu District, Taichung City 43858, Taiwan	Freehold	100	3,494	Factory and office

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2018

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
36.	Portion of Dah Chong No.2 Building, 18-2, Roppongi, 5-chome, Minato-ku, Tokyo, Japan	Freehold	100	707	Office
37.	20 Tuas Avenue 2, Singapore 639451, Lot No.1349, Mukim 7	2041	100	4,841 plus 132 parking area	Car showroom, workshop, storage and office
38.	Lots 77, 78 & 79, SEDCO Light Industrial Estate, Mile 5½, Off Jalan Tuaran, 88993 Kota Kinabalu, Sabah, Malaysia	2034	60	6,946	Office and warehouse
39.	Lots B1-B9, B11 & B12, Karamunting, Jalan Batu Sapi WDT4, Sandakan, Sabah, Malaysia	2881	60	3,114	Office and warehouse
40.	Lots C10 & C11, SEDCO Light Industrial Estate, Mile 2½, Jalan Apas, Tawau, Sabah, Malaysia	2042	60	2,657	Office and warehouse
41.	Premises Nos. C1 & C2, MPL Saguking Warehouse, Wilayah Persekutuan Labuan, Malaysia	2081	60	558	Office and warehouse

MAJOR PROPERTIES HELD BY THE GROUP (CONTINUED)

As at 31 December 2018

	Address / Lot no.	Leasehold expiry	Group's interest %	Approximate gross floor area / Approximate saleable area* (sq. m.)	Existing use
42.	Lots 1629 & 2678, Section 64 KTLD, Jalan Kwong Lee Bank, 93450 Kuching, Sarawak, Malaysia	2073	67	7,157	Office and logistics centre
43.	Lot 1894, Block 4, Miri Concession Land District, Piasau Industrial Estate, Miri, Sarawak, Malaysia	2043	67	2,808	Office and logistics centre
44.	Lot 722, Block 31, Bintulu Service Industrial Estate, Bintulu Sibiya Road 9, Bintulu, Sarawak, Malaysia	2043	67	2,072	Office and logistics centre

DEFINITION OF TERMS

TERMS

Total debt	Short term and long term loans, plus bank overdrafts
Net debt	Total debt less cash and bank deposits
Total capital	Shareholders' funds plus net debt
Total capital employed	Shareholders' funds plus total debt
EBITDA	Profit before interest expense, taxation, depreciation and amortisation
Segment revenue	Segment revenue from external customers plus inter-segment revenue
Operating profit	Segment result from operations (before taxation and non-controlling interests)

RATIOS

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

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

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

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

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

$$\text{Operating margin} = \frac{\text{Operating profit}}{\text{Segment revenue from external customers}}$$

CORPORATE INFORMATION

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

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

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

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

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

Financial Calendar
Closure of register for ascertaining shareholders' entitlement to:

Attend and vote at Annual General Meeting:	14 May 2019 to 17 May 2019
Final Dividend:	23 May 2019 to 27 May 2019
Annual General Meeting:	17 May 2019 10:30 a.m. Concord Room 8th Floor Renaissance Harbour View Hotel Hong Kong 1 Harbour Road Wanchai Hong Kong
Final Dividend payable:	16 July 2019

Annual Report 2018

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

Shareholders may choose to rely on the Annual Report posted on the Group's website and change their preference by writing to the Company's Share Registrar. Shareholders having difficulty in gaining access to the document will promptly be sent printed copies free of charge upon request to the Company's Share Registrar.

Non-registered shareholders wish to receive a printed copy of our Annual Report are requested to write to the Corporate Communications Department, Dah Chong Hong Holdings Limited, 8th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong, or by fax: 2756 5167 or by email: contact@dch.com.hk.

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