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OVERVIEW

The Group is an integrated and international trading group with business operations in Hong Kong, Macao, the PRC, Japan, Singapore and Canada, providing quality products and services in the three core businesses of trading and distribution of motor vehicles, trading and distribution of food and consumer products, such as food, electrical appliances and cosmetics and the provision of logistics services.

The Group's aggregate turnover is primarily from the following three segments:

- (a) the trading and distribution of motor vehicles and motor vehicle related business was HK\$6,681.0 million, HK\$5,532.8 million, HK\$7,683.9 million and HK\$4,312.7 million for the three years ended 31 December 2006 and six months ended 30 June 2007, respectively;
- (b) the trading and distribution of food and consumer products and other trading were HK\$4,677.8 million, HK\$4,821.5 million, HK\$5,047.1 million and HK\$2,567.3 million for the three years ended 31 December 2006 and six months ended 30 June 2007, respectively; and
- (c) the provision of logistics services was HK\$85.6 million, HK\$117.8 million, HK\$144.4 million and HK\$84.8 million for the three years ended 31 December 2006 and six months ended 30 June 2007, respectively.

FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE GROUP

The Group's sales and its ability to continue to generate profits are affected by a number of factors, many of which may not be within the Group's control. A list of these factors is set out below:

- *Market competition.* Keen competition has been constantly affecting the Group's profit margin. The Group provides similar products and services as other market players, customers of the Group are price sensitive and price competition between the Group and competitors can affect the Group's results. This is particularly relevant for the motor vehicle trading business in China, as well as food commodities business during periods of market downturns.
- *Fluctuations in Cost of Sales for Traded Goods.* The Group's gross profit margins are affected by price fluctuations related to the cost of sales of goods that the Group is selling. Any significant increase in the cost of such goods, which the Group may not be able to pass on to its customers through price increases, will affect the Group's gross profit margin.
- *Regulations and Compliance.* Government regulations have played a significant role affecting the Group's sales and profit margins where the Group sells its products. For instance, in the Group's motor vehicle trading business, government regulations may affect vehicle price, design and running cost by way of levying additional tax or fees or promulgating more stringent environmental or quality or safety control regulations. With respect to the Group's sales of food products, with increasing concern on food and product safety, compliance with relevant regulations is the key to maintain a product's presence in the market. If there is a new regulation or a change in the application or interpretation of the existing regulations that the Group's suppliers are not able to meet, the Group's turnover could be adversely affected. In certain less developed markets, the risk of non-compliance of relevant regulations may be higher because such markets are more prone to have relatively more frequent changes in regulations.

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- *Suppliers' product defect.* The Group distributes products that are designed and produced by suppliers, and in the case of substantial product defects, the Group will under certain circumstances be jointly liable with the suppliers for loss of end customers, and the defect in products will result in lost of sales or otherwise materially affect the sales of products and other products from the same suppliers that are handled by the Group.
- *Macro-economic Factors.* Strong economic growth may significantly boost sales of luxury products (such as automobiles, abalone and cosmetics), while sales increment of basic necessities (such as frozen meat, rice and edible oil) may be relatively less in most markets.
- *Change in Customers' Preference.* If a brand or product that the Group sells fails to innovate with features or appearance that can synchronise with prevailing trends, the Group's sales and gross profit could be adversely affected. The sales of cosmetic products, for instance, may be affected by consumers' pursuit of trendy products in terms of product form, colour, usage and packaging, which has growing influence in brand choice and thus, decisions to buy. The sales of motor vehicles are also affected by the product life cycle, product quality, brand image and financial condition of the motor manufacturers.
- *Foreign exchange fluctuations.* Fluctuations in foreign currencies may affect the Groups' cost of goods sold as a substantial portion of the Group's purchases is sourced from overseas suppliers and settled in foreign currencies. The Group's turnover and gross margin may be adversely affected by foreign exchange fluctuations, as any adverse impact from foreign currency movement may not be fully transferable to end customers. The risk of foreign exchange fluctuations will also impact the Group's gross margin even in the case when purchases are settled in local or pegged foreign currencies due to the market practice of allowing the supplier to transfer the currency fluctuation to the Group by increasing the purchase price.
- *Weather Conditions.* Sales of some of the Group's food and consumer products are heavily influenced by weather. Some of the Group's sports drinks, for instance, sell well with an extended period of hot and sunny weather in summer, as well as the Group's sun block products and air conditioners. On the other hand, sustained cold weather in winter can boost sales of hot pot items of the Group like beef and mutton.
- *Industry-specific Conditions.* The Group's logistics services are provided to operators in certain industries and therefore are highly dependent on conditions specific to those industries. For instance, the Group's sourcing, processing, and logistics business has been growing strong in Macao due to the fast growth in the gaming industry in that region. If there is any unfavourable change in the economic and operating environment of the industry where the Group provides its logistics services, the Group's logistics business may be adversely affected.
- *Animal diseases.* Certain animal diseases, such as bird flu, mad-cow, Streptococcus Suis, have in the past drastically dampened the demand for the Group's frozen meat products and adversely affected the Group's sales and gross profit of such products.

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BASIS OF PRESENTATION

On 1 January 2004 and on 29 June 2007, the Group acquired from the wholly-owned subsidiaries of its ultimate holding company, CITIC Pacific, the entire equity interests in Broadview Investments Holdings Ltd. and its subsidiaries for a cash consideration of HK\$301,175,000 and Yee Lim Godown & Cold Storage Limited for a cash consideration of HK\$12,598,000 respectively.

The control is not transitory and, consequently, there was a continuation of the risks and benefits to the controlling party, and therefore these are considered as business combinations under common control and that Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA is applied for these transactions. The “Financial information” has been prepared using the merger basis of accounting as if the Group had always been in existence. The net assets of the combining companies are consolidated using the existing book values from the controlling equity shareholder’s perspective.

Other acquisitions, being the acquisition of equity interests in companies from independent third parties, were accounted for under the purchase accounting method.

Historically, 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 OPCOs which are wholly-owned by 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 transfer 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 PRC laws, equity interests in the OPCOs at nil consideration or for 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 effective control over the operational and financial policies of the OPCOs and derives economic benefits from the operations of the OPCOs. Accordingly, the financial results and positions of the OPCOs have been consolidated into the Group since their respective dates of establishment or acquisitions.

The business-by-business analysis on importance and contribution by the OPCOs are summarized below.

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Turnover

The following table shows the breakdown of the Group's turnover in the PRC by OPCOs and non-OPCOs for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%
	<i>(unaudited)</i>									
PRC (other than Hong Kong and Macao)										
Motor Segment										
OPCOs (Note 1)	1,022.8	21.3	1,239.5	35.2	2,813.2	50.5	1,128.4	47.4	1,655.5	51.5
Non-OPCOs (Note 2)	2,291.4	47.9	666.3	19.0	951.5	17.1	512.3	21.6	613.4	19.0
	<u>3,314.2</u>	<u>69.2</u>	<u>1,905.8</u>	<u>54.2</u>	<u>3,764.7</u>	<u>67.6</u>	<u>1,640.7</u>	<u>69.0</u>	<u>2,268.9</u>	<u>70.5</u>
Food and Consumer Products Segment										
OPCOs (Note 3)	858.1	17.9	854.1	24.3	981.7	17.6	377.0	15.8	456.8	14.2
Non-OPCOs (Note 4)	619.3	12.9	750.3	21.3	814.3	14.6	361.1	15.2	481.0	15.0
	<u>1,477.4</u>	<u>30.8</u>	<u>1,604.4</u>	<u>45.6</u>	<u>1,796.0</u>	<u>32.2</u>	<u>738.1</u>	<u>31.0</u>	<u>937.8</u>	<u>29.2</u>
Logistics Segment										
OPCO (Note 5)	0.0	0.0	5.8	0.2	5.2	0.1	0.2	0.0	6.4	0.2
Non-OPCOs (Note 5)	0.0	0.0	0.6	0.0	3.2	0.1	0.7	0.0	3.4	0.1
	<u>0.0</u>	<u>0.0</u>	<u>6.4</u>	<u>0.2</u>	<u>8.4</u>	<u>0.2</u>	<u>0.9</u>	<u>0.0</u>	<u>9.8</u>	<u>0.3</u>
Total	<u>4,791.6</u>	<u>100.0</u>	<u>3,516.6</u>	<u>100.0</u>	<u>5,569.1</u>	<u>100.0</u>	<u>2,379.7</u>	<u>100.0</u>	<u>3,216.5</u>	<u>100.0</u>

Notes:

- Motor OPCOs are mainly set up for engaging in motor distribution and motor related businesses, in particular the city dealership business. In general, the city dealership business enjoys a higher gross profit margin than imported vehicle business as it also provides vehicle maintenance services and parts sales.
- Motor non-OPCOs are mainly focus on the trading and importation of vehicles and parts to the PRC and conduct supporting services for the Group.
- Trading OPCOs are engaged in the trading and distribution of food commodities (mainly locally sourced frozen meat) and FMCG, with the latter accounted for a majority of the turnover. FMCG products distributed include confectionary, beverages and milk powder. These FMCG are branded with advertising and promotion support from principals to build brand name and brand loyalty and thus, necessitate relatively higher price and gross profit to sustain the business.
- Trading non-OPCOs are mainly engaged in the trading and distribution of both imported and locally sourced food commodities such as frozen meat, frozen seafood, frozen vegetable and edible oil. As product differentiation in food commodities is not as obvious as that in FMCG, branding effect in food commodities is minimal and thus, cannot offer much room for price premium. As such, the gross profit margins for the trading of food commodities are usually lower than those of FMCG products.
- Logistics OPCO basically provides importation services which do not enjoy high margins such as the Logistics non-OPCOs activities which include bonded and non-bonded warehousing services as well as food processing and valued-added services such as re-packing and labeling.

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Gross Profit

The following table shows the breakdown of the Group's gross profit and gross profit margin in the PRC by OPCOs and non-OPCOs for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %
<i>(unaudited)</i>										
PRC (other than Hong Kong and Macao)										
Motor Segment										
OPCOs (Note 1)	54.6	5.3	67.7	5.5	182.7	6.5	86.7	7.7	132.5	8.0
Non-OPCOs (Note 2)	64.6	2.8	46.9	7.0	37.4	3.9	24.1	4.7	46.1	7.5
	119.2	3.6	114.6	6.0	220.1	5.8	110.8	6.8	178.6	7.9
Food and Consumer Products Segment										
OPCOs (Note 3)	88.4	10.3	114.7	13.4	138.1	14.1	53.7	14.2	84.0	18.4
Non-OPCOs (Note 4)	84.7	13.7	80.4	10.7	114.6	14.1	39.3	10.9	48.5	10.1
	173.1	11.7	195.1	12.2	252.7	14.1	93.0	12.6	132.5	14.1
Logistics Segment										
OPCO (Note 5)	0.0	0.0	0.2	3.4	0.1	1.9	0.0	0.0	0.0	0.0
Non-OPCOs (Note 5)	0.0	0.0	0.6	100.0	0.9	28.1	(0.2)	(28.6)	2.0	58.8
	0.0	0.0	0.8	12.5	1.0	11.9	(0.2)	(22.2)	2.0	20.4
Total	292.3	6.1	310.5	8.8	473.8	8.5	203.6	8.6	313.1	9.7

Notes:

- Motor OPCOs are mainly set up for engaging in motor vehicle distribution and motor vehicle related businesses, in particular the city dealership business. In general, the city dealership business enjoys a higher gross profit margin than imported vehicle business as it also provides vehicle maintenance services and parts sales.
- Motor non-OPCOs are mainly focus on the trading and importation of vehicles and parts to the PRC and conduct supporting services for the Group.
- Trading OPCOs are engaged in the trading and distribution of food commodities (mainly locally sourced frozen meat) and FMCG, with the latter accounted for a majority of the turnover. FMCG products distributed include confectionary, beverages and milk powder. These FMCG are branded with advertising and promotion support from principals to build brand name and brand loyalty and thus, necessitate relatively higher price and gross profit to sustain the business.
- Trading non-OPCOs are mainly engaged in the trading and distribution of both imported and locally sourced food commodities such as frozen meat, frozen seafood, frozen vegetable and edible oil. As product differentiation in food commodities is not as obvious as that in FMCG, branding effect in food commodities is minimal and thus, cannot offer much room for price premium. As such, the gross profit margins for the trading of food commodities are usually lower than those of FMCG products.
- Logistics OPCO basically provides importation services which do not enjoy high margins such as the Logistics non-OPCOs activities which include bonded and non-bonded warehousing services as well as food processing and valued-added services such as re-packing and labelling.

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Six months ended 30 June 2007

As at 30 June 2007, there were 34 OPCOs. 30 of them were accounted for by the Group as subsidiaries on a combined basis and 4 of them were accounted for by the Group as jointly controlled entities or associated companies using equity method of accounting. Of the 30 subsidiary OPCOs in the PRC, 20 were engaged in motor vehicle distribution business (“Motor OPCOs”), 9 in trading business (“Trading OPCOs”) and 1 in logistics business (“Logistics OPCO”). For the six months ended 30 June 2007, the subsidiary OPCOs accounted for 30.3% and 7.3% of the Group’s turnover and net profits; the Motor OPCOs, the Trading OPCOs and the Logistics OPCO, respectively, accounted for 23.7%, 6.5% and 0.1% of the Group’s total turnover, and 12.5%, -5.3% and 0.1% of the Group’s profit attributable to equity shareholders of the Company.

The unfavourable performance in the PRC market through the Contractual Arrangement for the six months ended 30 June 2007 was attributable to the Trading OPCOs where it incurred advertising and promotional expenses of approximately HK\$18.5 million for the liquor distribution business, which was the main reason attributable to the net losses of HK\$11.1 million of Trading OPCOs. However, the Group expects that such losses would be reduced starting from the second half of 2007 as the principal of the liquor products will absorb the advertising and promotional responsibilities from the fourth quarter of 2007. Other than the liquor business conducted by the Trading OPCOs, other businesses within this segment in aggregate have been making profits contributed mainly by food distribution business in Shanghai. For the Motor OPCOs, the enlarged scale of the Group’s city-dealership network enabled it to enjoy synergy in management and resources sharing which enhanced the profitability of existing city dealerships and 4S outlets. This together with the consolidated performance of the additional five city dealerships, the turnover and gross profit contributed by Motor OPCOs for the six months ended 30 June 2007 were HK\$1,655.5 million and HK\$132.5 million respectively, which reached 58.8% and 72.5% of that of the full year 2006. The increasing customer base of city dealership businesses also improved the high gross profit margin aftersales service in the period and improved the overall profitability of the city dealerships. With city dealership accounted for a substantial portion in Motor OPCOs, the overall gross profit margin of Motor OPCOs recorded a 0.3% point over the same period in 2006 to 8.0%. The turnover of Trading OPCOs marked a growth rate of 21.2%, an increase over that of the same period last year as marketing efforts previously launched bore fruits, with brand awareness enhanced, for both liquor and confectionary business, especially during the festive season of the lunar new year. Regarding gross profits, there has been 4.2% point growth in gross profit margin over same period last year due to, as said, substantial incremental sales in liquor products and confectionery, with the former in particular fetching relatively high gross profit margin. For the Logistics OPCO, both turnover and net profit recorded double digit growth compared to same period 2006, with turnover of HK\$6.4 million and net profits of HK\$0.3 million.

The turnover of the Group’s Motor non-OPCOs reached HK\$613.4 million, which achieved 64.5% of the turnover of the full year 2006 with gross profit margin of 7.5% compared to 8.0% of the Motor OPCOs. The increment of 3.6% point in gross margin of Motor non-OPCOs against full year 2006 was mainly attributable to dissolution or termination of some of the non-profitable entities. In addition, after the implementation of WTO and CEPA, the Group also directly invested in motor related businesses and thus enhanced the gross profit margin of Motor non-OPCOs as a whole. On the other hand, the turnover of the Group’s PRC food and consumer products business not under Contractual Arrangements accounted for HK\$481.0 million, which exceeded that of the Trading OPCOs by HK\$24.2 million, despite the Trading OPCOs had better gross profit margin reaching 18.4% from its product mix, compared to the Trading non-OPCOs with product mix recorded a much lower gross profit margin of 10.1%. Nonetheless, there was a drop of 4.0% point in the gross profit margin of Trading non-OPCOs against that of the full year of 2006 as the growth in selling price of edible oils is less than that of the cost while the Group has been taking a more price competitive approach for frozen meat. The Logistics non-OPCO’s turnover was HK\$3.4 million with an average gross profit margin of 58.8% from the principal activities of repackaging and warehousing services provided at the Xinhui logistics hub.

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For the year ended 31 December 2006

As at 31 December 2006, there were 34 OPCOs. 30 of them were accounted for by the Group as subsidiaries on a combined basis and 4 of them were accounted for by the Group as jointly controlled entities or associated companies using equity method of accounting. Of the 30 subsidiary OPCOs in the PRC, 21 were Motor OPCOs, 8 Trading OPCOs and 1 Logistics OPCO. For the year ended 31 December 2006, the subsidiary OPCOs accounted for 29.4% and -0.3% of the Group's turnover and net profits; the Motor OPCOs, the Trading OPCOs and the Logistics OPCO, respectively, accounted for 21.8%, 7.6% and 0% of the Group's total turnover, and 5.2%, -5.6% and 0.1% of the Group's net profit attributable to equity shareholders of the Company.

The unfavourable performance in the PRC market through the Contractual Arrangement for the year ended 31 December 2006 was attributable to the performance of the Trading OPCOs where a substantial amount of HK\$26.5 million was incurred as the advertising and promotional expenses in order to expand the liquor distribution business, which caused the losses of HK\$18.1 million of Trading OPCOs. On the other hand, the food commodities and FMCG distribution business in the PRC conducted by the Trading OPCOs did make profits. The turnover of Trading OPCOs at HK\$981.7 million, marked 14.9% growth over last year as marketing efforts previously launched bore fruits, with brand awareness enhanced, for both liquor business in particular, whilst confectionary business also marked a healthy growth. The 0.7% point improvement in gross profit margin for the year 2006 against that of 2005 was due to the drastic growth in high margin liquor business. On the other hand, the turnover of Motor OPCOs improved substantially, which increased by 127.0% from HK\$1,239.5 million in 2005 to HK\$2,813.2 million in 2006. The improving performance of city-dealership was the main reason for the improvement in Motor OPCOs. The turnover, gross profit and gross profit margin of city dealership were pushed up by organic growth in customer base. In addition, the improvement was also attributed to the consolidation of the profit of the 7 additional city dealerships over the period. These city dealerships were in matured stage and able to contribute profit after acquisition. Meanwhile, the Group also converted an OPCO from a city dealership into an importer for passenger cars that was set up to meet the new China automobile policy requirement for imported car. This improved the Group's sales and profit through Motor OPCOs. In addition, the Group also ceased the operation of other non-profit making businesses conducted by Motor OPCOs. Taking into account of the above factors, the gross profit margin was improved by 1.0% point from 5.5% in 2005 to 6.5% in 2006. For the Logistics OPCO, turnover had been stabilised at over HK\$5 million for the year ended 31 December 2006.

Compared to the performance of Motor non-OPCOs, as a result of the successful strategy, the turnover and gross profit generated by the city dealership conducted through Motor OPCOs surpassed the vehicle business of Motor non-OPCOs. The turnover of Motor non-OPCOs increased by 42.8% from HK\$666.3 million in 2005 to HK\$951.5 million in 2006 with gross profit margin of 3.9% compared to 6.5% as that enjoyed by Motor OPCOs. Such an increase was primarily due to the rebounded importation of commercial vehicle business in 2006 as a result of new models imported to the market. However, the gross profit margin of the overall Motor non-OPCOs was diluted by the resumption of the relatively low margin PRC imported commercial vehicle business. On the other hand, the turnover of the Group's Trading non-OPCOs generated from the food commodity business of HK\$814.3 million, was lower than that of Trading OPCOs of HK\$981.7 million, despite both attained the same gross profit margin at 14.1%. In addition, Trading non-OPCOs' gross profit margin recorded a growth of 3.4% point over that of last year due to an increase in the sales of imported frozen meat and edible oil to suit market demand and both were able to fetch satisfactory selling price. Logistics non-OPCOs' turnover was HK\$3.2 million with gross profit margin of 28.1% from the principal activities of repackaging and warehousing services provided at the Xinhui logistics hub. On the other hand, the Logistics OPCO's gross profit margin was only 1.9%.

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For the year ended 31 December 2005

As at 31 December 2005, there were 35 OPCOs. 30 of them were accounted for by the Group as subsidiaries on a combined basis and 5 of them were accounted for by the Group as jointly controlled entities or associated companies using equity method of accounting. Of the 30 subsidiary OPCOs in the PRC, 22 were Motor OPCOs, 7 Trading OPCOs and 1 Logistics OPCO. For the year ended 31 December 2005, the subsidiary OPCOs accounted for 20.0% and -0.1% of the Group's turnover and net profits; the Motor OPCOs, the Trading OPCOs and the Logistics OPCOs, respectively, accounted for 11.8%, 8.1% and 0.1% of the Group's total turnover, and -3.1%, 3.0% and 0% of the Group's profit attributable to equity shareholders of the Company.

The unfavourable performance in the PRC market through the Contractual Arrangement was attributable to the performance of the Motor OPCOs where the performance was still hindered by the difficulties in the initial investment stage. The turnover of the Motor OPCOs' business increased by 21.2% from HK\$1,022.8 million in 2004 to HK\$1,239.5 million in 2005. The gross profit increased as well from HK\$54.6 million in 2004 to HK\$67.7 million in 2005. The increase in turnover was mainly due to consolidating the performance of additional 4 city dealerships and the sales improvement of existing city dealerships in respect of better trained sales people and sales channel management. However, because the city dealerships were still in investment phase, the customer base was not up to the scale to generate sustainable aftersales service income and the gross profit margin could not grow. The Trading OPCOs' turnover has been stable as compared to that of last year except for a prominent growth in the liquor business and the food commodity sales to a fast food chain. The Trading OPCOs had generated gross profits of HK\$114.7 million, attributable to the Group's food commodities and FMCG distribution business which started to gather momentum in Shanghai and Guangdong. The growth in the gross profit over last year by HK\$26.3 million was mainly due to the commencement of liquor business and a sharp growth in food commodity sales to a fast food retail chain. For the Logistics OPCO, the importation business commenced in year 2005 with both turnover and gross profits tracking a stable growth trend. Break-even result was recorded during such an investment period.

As to the performance of Motor non-OPCOs, the turnover dropped by 70.9% from HK\$2,291.4 million in 2004 to HK\$666.3 million in 2005 with gross profit margin of 7.0% compared to 5.5% of that enjoyed by Motor OPCOs, mainly due to the implementation of a component replacement scheme for one of the major motor brand and preparation for applying China Compulsory Certification (CCC) for a new model, which adversely affected the imported commercial vehicle business in that period. Since this lower margin commercial vehicle import business accounted for a large portion of Motor non-OPCOs business in 2004, the 2005 gross profit margin shot up significantly while the gross profit was down by 27.4%. On the other hand, the turnover of the Group's Trading non-OPCOs accounted for HK\$750.3 million, generated from the food commodity business which was lower than Trading OPCOs which recorded turnover of HK\$854.1 million with higher gross profit margin of 13.4% compared to 10.7% of the Trading non-OPCOs. Gross profit margin of the Trading non-OPCOs also dropped against last year by 3.0% point which was due to animal diseases which trimmed the spread between selling price and cost of frozen meat whereas there was also a downturn in market's edible oil price. The Logistics non-OPCOs' turnover was HK\$0.6 million.

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For the year ended 31 December 2004

As at 31 December 2004, there were 29 OPCOs. 23 of them were accounted for by the Group as subsidiaries on a combined basis and 6 of them were accounted for by the Group as jointly controlled entities or associated companies using equity method of accounting. Of the 23 subsidiary OPCOs in the PRC, 17 were Motor OPCOs, 5 Trading OPCOs and 1 Logistics OPCO. For the year ended 31 December 2004, the subsidiary OPCOs accounted for 16.4% and -9.3% of the Group's turnover and net profits; the Motor OPCOs, the Trading OPCOs and the Logistics OPCO, respectively, accounted for 8.9%, 7.5% and 0% of the Group's total turnover, and -8.6%, -0.7% and 0% of the Group's profit attributable to equity shareholders of the Company.

The unfavourable performance in the PRC market through the Contractual Arrangement was attributable to the performance of the Motor OPCOs and the Trading OPCOs. In relation to the Motor OPCOs, the Group was exploring the opportunities and potentials of the market and had incurred substantial expenses for investment in the setting up of dealer network for different products, including but not limited to locally manufactured commercial vehicles, locally manufactured passenger cars and imported vehicles through self-developed city dealerships and 4S outlets. However, the Group faced challenges associated with initial investment such as a small customer base at the initial stage, in particular for the aftersale services, under utilisation, high depreciation costs and low productivity associated with inexperienced local staff, which on the whole hindered the profitability of these projects. At the initial stage of development, vehicle sales were the major sources of income of the city dealership business and the small customer base was not up to a sustainable scale to generate sufficient high gross profit margin aftersales services. Thus, a net loss was incurred in 2004 with turnover generated for the year of HK\$1,022.8 million. In addition, the performance of the Trading OPCOs, which were mainly engaged in food commodities and FMCG products' trading and distribution in the PRC, with sales generated mainly from FMCG for the time being, incurred an aggregate loss of HK\$1.9 million due to substantial initial investment expenses and start up costs. The Group had not yet commenced logistics business in the PRC in the financial year 2004.

Compared to the Motor OPCOs, the Group's PRC turnover of import business through Motor non-OPCOs is HK\$2,291.4 million with gross profit margin of 2.8% compared to 5.3% as that enjoyed by Motor OPCOs. It is mainly due to the imported vehicle business and other parts import business, with the relatively low margin imported commercial vehicle business accounted for most of the turnover, the overall gross profit margin for Motor non-OPCOs was lower than that of the Motor OPCOs. On the other hand, the turnover of the Group's Trading non-OPCOs accounted for HK\$619.3 million, which recorded a worse sales performance than that of the Trading OPCOs which recorded a turnover of HK\$858.1 million, despite Trading non-OPCOs had a better gross profit margin of 13.7% when both edible oil and frozen meat were being sold at a satisfactory gross profit margin, compared to 10.3% enjoyed by Trading OPCOs. The Group had not yet commenced logistics business in the PRC in the financial year 2004.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Provision for warranties

There are two types of warranty that the Group provides to its customers for its motor vehicle distribution business in Hong Kong and Macao, namely, product warranty and goodwill warranty. However, in the PRC, the Group only provides product warranty to its customers for its motor vehicle distributorship and dealership business. Product warranty is provided by the Group on behalf of the automobile manufacturers, for product defects occurring during the warranty period which are covered by the manufacturers' warranty policy. For costs incurred by the Group for such product warranty, they will be treated as receivables from manufacturers until settlement. No provision is required to be made for product warranty.

Goodwill warranty is provided by the Group, in addition to the product warranty, to its customers in Hong Kong. It is granted by the Group to maintain customer loyalty and to gain customer confidence by covering reasonable claims on product defects or quality problems which fall outside the manufacturers' warranty policy or outside the warranty period. The costs for rendering the repair and maintenance services under such goodwill warranty are borne solely by the Group and there is no reimbursement of such parts and labour costs from the manufacturers. Accordingly, a provision of such goodwill warranty will be recorded as part of the costs of sales when a vehicle is sold.

The Group makes provisions under the warranties it gives on sale of products taking into account the Group's recent claim experience. As the manufacturers are continually upgrading its 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 the provision would affect profit or loss in future years.

(b) Construction contracts

Revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed on the combined balance sheets will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(c) Valuation of investment properties

The Group's investment properties are revalued by independent professional valuers on a market value basis at each balance sheet date. Such valuations are based on certain assumptions as set out in the sub-section headed "Valuation Assumptions" in Appendix IV to this Prospectus, which are subject to uncertainty and might materially differ from actual results.

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(d) Income taxes

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

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

(e) Impairment of assets

The Group reviews the carrying amounts of assets at each balance sheet date to determine whether there is indication that the assets may be impaired. When an indication of impairment is identified, the assets recoverable amount would be estimated. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions in the cash flow forecasts would increase or decrease the provision of impairment loss and affect the Group's net asset value.

Impairment loss for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(f) Inventories costing and provision for inventories

The cost of inventories is calculated on first-in-first-out, specific identification or weighted average basis as appropriate. The Group normally calculated the costs of perishable products, mainly food products, using first-in-first-out basis while those of generic consumer products, such as motor spare parts, electrical appliances, etc., using weighted average basis. For motor vehicles, specific identification basis is normally adopted in calculating the related cost, which comprises all costs of purchases and other costs incurred in bringing that specific item to their present location and condition.

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value 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 made in prior years and affect the Group's net asset value.

(g) Depreciation

Property, plant and equipment, other than investment property, are depreciated on a straight-line basis over their estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

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FINANCIAL HIGHLIGHTS

Turnover

The Group generates turnover primarily from its three core business segments: the motor vehicles and related business segment, the food and consumer products segment and the logistics segment.

- Turnover for the motor vehicle segment includes revenues from (i) the motor vehicle distribution and dealership business, which includes the sale of motor vehicles and their Genuine Parts and from the provision of after-sale services for vehicles the Group distributes, and (ii) other motor vehicle related business, including revenues from operation of independent service outlets and car testing centres, trading of used cars, OE Parts and after-market parts and environmental products, as well as revenues from motor leasing and airport and aviation support businesses.
- Turnover for the food and consumer products segment primarily includes revenues from (i) trading in food products including food commodities and FMCG through wholesale, food service and retail channels including sales of self-owned DCH Food Mart chain stores (ii) trading in electrical appliance products and (iii) other general trading, including the turnover from the Group's provision of certain raw material sourcing services for its customers and trading of other consumer products.
- Turnover for the logistics segment includes service fees paid by customers for the Group's logistics and related services.

During the three years ended 31 December 2006 and for the six months ended 30 June 2007, the turnover of the Group was HK\$11,494.1 million, HK\$10,520.0 million, HK\$12,926.4 million and HK\$6,989.0 million, respectively.

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The following table shows the breakdown of the Group's turnover by business segment for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%
	<i>(unaudited)</i>									
Motor Segment										
Motor Vehicle										
Distribution and Dealership	5,714.5	49.7	4,708.3	44.8	6,859.2	53.1	3,044.6	52.1	3,882.4	55.6
Motor Vehicle Related Business	966.5	8.4	824.5	7.8	824.7	6.4	425.0	7.3	430.3	6.2
	<u>6,681.0</u>	<u>58.1</u>	<u>5,532.8</u>	<u>52.6</u>	<u>7,683.9</u>	<u>59.5</u>	<u>3,469.6</u>	<u>59.4</u>	<u>4,312.7</u>	<u>61.8</u>
Food and Consumer Products Segment										
Food Products	4,204.1	36.6	4,235.8	40.3	4,229.7	32.7	1,915.9	32.8	2,180.8	31.2
Electrical Appliance Products	397.3	3.5	435.6	4.1	522.6	4.0	260.0	4.4	254.6	3.6
Other General Trading	76.4	0.7	150.1	1.4	294.8	2.3	108.8	1.9	131.9	1.9
	<u>4,677.8</u>	<u>40.8</u>	<u>4,821.5</u>	<u>45.8</u>	<u>5,047.1</u>	<u>39.0</u>	<u>2,284.7</u>	<u>39.1</u>	<u>2,567.3</u>	<u>36.7</u>
Logistics Segment	85.6	0.7	117.8	1.1	144.4	1.1	64.0	1.1	84.8	1.2
Others	49.7	0.4	47.9	0.5	51.0	0.4	24.0	0.4	24.2	0.3
Total	<u>11,494.1</u>	<u>100.0</u>	<u>10,520.0</u>	<u>100.0</u>	<u>12,926.4</u>	<u>100.0</u>	<u>5,842.3</u>	<u>100.0</u>	<u>6,989.0</u>	<u>100.0</u>

The analysis of the Group's turnover by geographical location for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007 as below:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%
	<i>(unaudited)</i>									
Hong Kong and Macao	5,364.8	46.7	5,683.6	54.0	5,791.7	44.8	2,771.2	47.4	2,949.3	42.2
PRC (other than Hong Kong and Macao)	4,791.6	41.7	3,516.6	33.4	5,569.1	43.1	2,379.7	40.7	3,216.5	46.0
Others	1,337.7	11.6	1,319.8	12.6	1,565.6	12.1	691.4	11.9	823.2	11.8
Total	<u>11,494.1</u>	<u>100.0</u>	<u>10,520.0</u>	<u>100.0</u>	<u>12,926.4</u>	<u>100.0</u>	<u>5,842.3</u>	<u>100.0</u>	<u>6,989.0</u>	<u>100.0</u>

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Hong Kong and Macao market and the PRC market have together consistently represented over 85% of the Group's turnover for the three years ended 31 December 2006 and also the first half of 2006 and 2007. The Hong Kong and Macao market, compared to the PRC market, is relatively mature and the Group has commenced its various trading businesses in Hong Kong and Macao market since its incorporation. This was evidenced by a steady growth in turnover from this market over the period 2004 to 2006 from HK\$5,364.8 million in 2004 to HK\$5,791.7 million in 2006, representing the compound annual growth rate of 3.9%. Due to higher growth potential and more volatile market condition in the PRC market, the Group's turnover from this market shows more fluctuation. In particular, the fluctuation in the Group's turnover from the PRC market was primarily driven by the Group's motor vehicle distribution and dealership business, which caused the Group's turnover from this market to decrease from HK\$4,791.6 million in 2004 to HK\$3,516.6 million in 2005, and increase to HK\$5,569.1 million in 2006. See “— Results of operations — Year ended 31 December 2005 compared to year ended 31 December 2004 — Turnover” for detailed analysis.

Cost of goods sold/services

The cost of goods sold/services of the Group's motor vehicle business primarily consists of cost of motor vehicles, parts and accessories purchased from its motor vehicle principals or other suppliers, as well as direct labor cost in motor vehicle maintenance services and other expenses relating to the provision of motor vehicle related services. The cost of goods sold of the Group's food and consumer products business primarily consists of cost of goods for sale purchased from food and consumer product suppliers. The cost of services of the Group's logistics business primarily consists of rent for warehouses leased, delivery expenses and staff costs related to the provision of logistics services.

In the three years ended 31 December 2006 and in the six months ended 30 June 2006 and 2007, cost of goods sold/services accounted for approximately 85.9%, 84.1%, 85.3%, 85.1% and 84.9%, respectively, of the total turnover of the Group.

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The following table shows the breakdown of the Group's cost of goods sold/services by each business segment and the percentage of turnover from each respective segment, for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%
	<i>(unaudited)</i>									
Motor Segment										
Motor Vehicle										
Distribution and Dealership	5,107.4	89.4	4,012.8	85.2	6,000.1	87.5	2,669.6	87.7	3,390.2	87.3
Motor Vehicle Related Business	796.2	82.4	698.7	84.7	682.0	82.7	347.3	81.7	352.4	81.9
	<u>5,903.6</u>	88.4	<u>4,711.5</u>	85.2	<u>6,682.1</u>	87.0	<u>3,016.9</u>	87.0	<u>3,742.6</u>	86.8
Food and Consumer Products Segment										
Food Products	3,544.2	84.3	3,577.3	84.5	3,551.7	84.0	1,600.6	83.5	1,810.3	83.0
Electrical Appliance Products	293.9	74.0	327.4	75.2	401.4	76.8	203.2	78.2	196.0	77.0
Other General Trading	61.2	80.1	130.0	86.6	267.0	90.6	96.8	89.0	117.0	88.7
	<u>3,899.3</u>	83.4	<u>4,034.7</u>	83.7	<u>4,220.1</u>	83.6	<u>1,900.6</u>	83.2	<u>2,123.3</u>	82.7
Logistics Segment	68.9	80.5	98.0	83.2	120.3	83.3	53.6	83.8	67.8	80.0
Others	0.2	0.4	0.3	0.6	0.2	0.4	0.1	0.4	0.3	1.2
Total	<u>9,872.0</u>	85.9	<u>8,844.5</u>	84.1	<u>11,022.7</u>	85.3	<u>4,971.2</u>	85.1	<u>5,934.0</u>	84.9

Due to the nature of trading business that the Group is engaged in, the fluctuation in the Group's cost of goods sold/services was primarily due to the fluctuation in the cost of goods for sale purchased from its motor vehicle and food and consumer products suppliers. For detailed discussion of such fluctuation in cost of goods sold/services, see "— Results of operations — Year ended 31 December 2006 compared to year ended 31 December 2005 — Cost of sales" and "— Results of operations — Year ended 31 December 2005 compared to year ended 31 December 2004 — Cost of sales".

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Gross profit

The following table sets forth the Group's gross profit and gross profit margin by business segment for the period indicated below:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %
<i>(unaudited)</i>										
Motor Segment										
Motor Vehicle										
Distribution and Dealership	607.1	10.6	695.5	14.8	859.1	12.5	375.0	12.3	492.2	12.7
Motor Vehicle Related Business	170.3	17.6	125.8	15.3	142.7	17.3	77.7	18.3	77.9	18.1
	<u>777.4</u>	11.6	<u>821.3</u>	14.8	<u>1,001.8</u>	13.0	<u>452.7</u>	13.0	<u>570.1</u>	13.2
Food and Consumer Products Segment										
Food Products	659.9	15.7	658.5	15.5	678.0	16.0	315.3	16.5	370.5	17.0
Electrical Appliance Products	103.4	26.0	108.2	24.8	121.2	23.2	56.8	21.8	58.6	23.0
Other General Trading	15.2	19.9	20.1	13.4	27.8	9.4	12.0	11.0	14.9	11.3
	<u>778.5</u>	16.6	<u>786.8</u>	16.3	<u>827.0</u>	16.4	<u>384.1</u>	16.8	<u>444.0</u>	17.3
Logistics Segment	16.7	19.5	19.8	16.8	24.1	16.7	10.4	16.2	17.0	20.0
Others	49.5	99.6	47.6	99.4	50.8	99.6	23.9	99.6	23.9	98.8
Total	<u>1,622.1</u>	14.1	<u>1,675.5</u>	15.9	<u>1,903.7</u>	14.7	<u>871.1</u>	14.9	<u>1,055.0</u>	15.1

The gross profit margin of the motor segment showed more volatility during the period between 2004 and 2006 as compared to other business segments. The fluctuation in gross profit margin for the Group's motor segment during the period of 2004 to 2006 was primarily due to the fluctuation in the motor vehicle sales in the PRC market, as the gross profit margin from motor vehicles sales in the PRC is relatively lower compared to the gross profit margin in motor vehicles sales in the other markets due to a more competitive market conditions in the PRC motor business.

For the Group's food and consumer products segment, the fluctuation in gross profit margin during the three years ended 31 December 2006 was primarily due to the outbreak of animal diseases in 2005 which caused decrease in demand for food products and therefore impaired the margin, and since the fourth quarter of 2006 the demand for poultry and pork products started to recover which caused the increase in gross profit margin. In addition, starting from 2005 the sale of the Group's palm oil products increased as a result of a change in customers' preference, which products have a relatively lower gross profit margin. Another factor causing the fluctuation in gross profit for food and consumer products is due to the fluctuation in selling price of edible oil, which principally follows that of the global market price trend and such price has been on the rebound track since the second half year of 2006.

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For the Group's logistics business, the fluctuation in gross profit margin during the three years ended 31 December 2006 was primarily due to an increase in staff cost in 2005 for the Group's providing services to a leading convenient store chain in Hong Kong. The increase in gross profit margin for the six months ended 30 June 2007 was primarily due to the Group's successful expansion in logistics business in the PRC and Macao as a result of the improved market condition in the gaming industry.

The breakdown of the Group's gross profit and gross profit margin by business segment and by geographical location for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007 as follows:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %
<i>(unaudited)</i>										
Hong Kong and Macao										
Motor Segment										
Motor Vehicle Distribution and Dealership	448.1	21.5	529.5	21.6	559.4	22.1	231.5	19.8	253.4	20.0
Motor Vehicle Related Business	119.8	21.4	86.9	18.0	113.8	22.8	62.0	21.4	61.0	21.0
	<u>567.9</u>	21.4	<u>616.4</u>	21.0	<u>673.2</u>	22.2	<u>293.5</u>	20.1	<u>314.4</u>	20.2
Food and Consumer Products Segment										
Food Products	441.0	18.9	422.4	18.3	433.3	19.0	207.6	19.5	223.0	19.6
Electrical Appliance Products	76.3	26.7	79.7	26.0	82.6	25.9	42.1	25.1	44.3	25.9
Other General Trading	0.0	12.2	0.0	8.6	—	—	—	—	—	—
	<u>517.3</u>	19.8	<u>502.1</u>	19.2	<u>515.9</u>	19.8	<u>249.7</u>	20.2	<u>267.3</u>	20.5
Logistics Segment	16.7	19.5	19.0	17.1	23.1	16.9	10.6	16.7	15.0	20.0
Others	14.5	97.7	16.2	97.9	24.5	99.1	10.7	98.7	10.7	97.1
Total	<u>1,116.4</u>	20.8	<u>1,153.7</u>	20.3	<u>1,236.7</u>	21.4	<u>564.5</u>	20.4	<u>607.4</u>	20.6

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	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	<i>HK\$ 'm</i>	<i>GP %</i>	<i>HK\$ 'm</i>	<i>GP %</i>	<i>HK\$ 'm</i>	<i>GP %</i>	<i>HK\$ 'm</i>	<i>GP %</i>	<i>HK\$ 'm</i>	<i>GP %</i>
PRC (other than Hong Kong and Macao)										
Motor Segment										
Motor Vehicle Distribution and Dealership	89.8	3.1	95.5	6.0	203.2	5.8	102.3	6.7	166.7	7.8
Motor Vehicle Related Business	29.4	8.0	19.1	6.3	16.9	5.8	8.5	7.5	11.9	9.4
	<u>119.2</u>	<u>3.6</u>	<u>114.6</u>	<u>6.0</u>	<u>220.1</u>	<u>5.8</u>	<u>110.8</u>	<u>6.8</u>	<u>178.6</u>	<u>7.9</u>
Food and Consumer Products Segment										
Food Products	146.0	10.7	166.2	11.7	210.4	14.8	77.0	13.0	116.5	14.8
Electrical Appliance Products	27.1	24.3	28.5	22.2	38.6	19.0	14.7	15.9	14.3	17.1
Other General Trading	—	—	0.4	0.8	3.7	2.2	1.3	2.6	1.7	2.4
	<u>173.1</u>	<u>11.7</u>	<u>195.1</u>	<u>12.2</u>	<u>252.7</u>	<u>14.1</u>	<u>93.0</u>	<u>12.6</u>	<u>132.5</u>	<u>14.1</u>
Logistics Segment	—	—	0.8	12.5	1.0	11.9	(0.2)	(22.2)	2.0	20.4
Others	—	—	—	—	—	—	—	—	—	—
Total	<u><u>292.3</u></u>	<u><u>6.1</u></u>	<u><u>310.5</u></u>	<u><u>8.8</u></u>	<u><u>473.8</u></u>	<u><u>8.5</u></u>	<u><u>203.6</u></u>	<u><u>8.6</u></u>	<u><u>313.1</u></u>	<u><u>9.7</u></u>

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	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %	HK\$ 'm	GP %
Others										
Motor Segment										
Motor Vehicle Distribution and Dealership	69.2	10.1	70.5	10.8	96.5	11.3	41.2	11.9	72.1	15.2
Motor Vehicle Related Business	21.1	59.8	19.8	49.6	12.0	36.6	7.2	33.3	5.0	35.7
	<u>90.3</u>	<u>12.6</u>	<u>90.3</u>	<u>13.1</u>	<u>108.5</u>	<u>12.2</u>	<u>48.4</u>	<u>13.2</u>	<u>77.1</u>	<u>15.8</u>
Food and Consumer Products Segment										
Food Products	72.9	14.3	69.9	14.0	34.3	6.6	30.7	12.0	31.0	11.9
Electrical Appliance Products	—	—	—	—	—	—	—	—	—	—
Other General Trading	15.2	19.9	19.7	20.0	24.1	19.0	10.7	19.3	13.2	21.1
	<u>88.1</u>	<u>15.1</u>	<u>89.6</u>	<u>15.0</u>	<u>58.4</u>	<u>9.0</u>	<u>41.4</u>	<u>13.3</u>	<u>44.2</u>	<u>13.7</u>
Logistics Segment	—	—	—	—	—	—	—	—	—	—
Others	<u>35.0</u>	<u>100.0</u>	<u>31.4</u>	<u>100.0</u>	<u>26.3</u>	<u>100.0</u>	<u>13.2</u>	<u>100.0</u>	<u>13.2</u>	<u>100.0</u>
Total	<u><u>213.4</u></u>	<u><u>15.9</u></u>	<u><u>211.3</u></u>	<u><u>16.0</u></u>	<u><u>193.2</u></u>	<u><u>12.3</u></u>	<u><u>103.0</u></u>	<u><u>14.9</u></u>	<u><u>134.5</u></u>	<u><u>16.3</u></u>

As compared to turnover contributed by the PRC operations as a percentage of the Group's total turnover, which were 41.7%, 33.4% and 43.1% for the three years ended 31 December 2006, respectively, and 40.7% and 46.0% for the six months ended 30 June 2006 and 2007, respectively, gross profit contributed by the PRC operations as a percentage of the Group's total gross profits are substantially lower, which was 18.0%, 18.5% and 24.9% for the three years ended 31 December 2006, respectively, and 23.4% and 29.7% for the six months ended 30 June 2006 and 2007, respectively. This was due to a comparatively lower gross profit margin in the PRC, both in the motor segment and the food and consumer trading segment.

The difference in the gross profit margin between the motor distribution business in Hong Kong and the PRC was mainly due to the Group is playing different roles in distributing vehicles in these two areas. In Hong Kong, given the smaller market size, the Group is the distributor and dealer for the motor brands, and therefore the relatively higher gross profit margin is rewarded to the Group for playing these two functions together. Moreover, the extra gross profit margin for Hong Kong motor business was also to cover high operating costs in the territory, sales and service support to Macao dealer and other commitments to customers as a distributor. In the PRC, city-dealership business accounts for dominant portion in the Group's vehicle distribution business in terms of turnover, and in city-dealership business the Group is playing the role of a dealer only, as such the overall gross profit margin is lower than that in Hong Kong, see "Business — Motor Vehicle Distribution and Dealership — Hong Kong and Macao" and "Business — Motor Vehicle Distribution and Dealership — PRC."

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The reason for lower gross profit margin of food and other consumer products in the PRC varied during different periods of time as a result of a constant change in product mix, however, in general, the more competitive market conditions and different cost structure in the PRC market as compared to that of Hong Kong and Macao were the primary reasons which caused lower profit margin for such sales in the PRC.

Net valuation gains on investment properties

Investment properties are land and buildings which are owned by the Group to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use. Investment properties are stated in the balance sheet at a fair value based on independent third party appraisal at each balance sheet date. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

Selling and distribution expenses

Selling and distribution expenses comprise mainly staff expenses, staff commission expenses, advertising and promotion expenses, rental expenses and others. The changes in selling and distribution expenses are generally corresponding to changes in turnover, although certain selling and distribution expenses such as staff expenses and showroom expenses require longer time to adjust to the change in turnover.

The following table shows the breakdown of the Group's selling and distribution expenses for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	% of total	HK\$ 'm	% of total	HK\$ 'm	% of total	HK\$ 'm	% of total	HK\$ 'm	% of total
Staff expenses	179.3	24.7	192.5	25.7	240.6	26.6	120.9	29.6	132.7	27.7
Sales commission expenses	77.9	10.7	103.5	13.8	109.9	12.2	48.4	11.9	52.9	11.0
Advertising & promotion expenses	105.1	14.5	92.6	12.4	153.3	17.0	65.1	16.0	77.9	16.2
Rental expenses	75.9	10.5	88.2	11.8	91.6	10.2	36.2	8.9	44.0	9.2
Others	287.7	39.6	272.7	36.3	306.8	34.0	137.4	33.6	172.0	35.9
Total	725.9	100.0	749.5	100.0	902.2	100.0	408.0	100.0	479.5	100.0

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Administrative expenses

The Group's administrative expenses comprise primarily administrative staff expenses, management fee expenses, depreciation, rental expenses and other miscellaneous expenses.

The following table shows the breakdown of the Group's administrative expenses for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	<i>HK\$ 'm</i>	<i>% of total</i>	<i>HK\$ 'm</i>	<i>% of total</i>	<i>HK\$ 'm</i>	<i>% of total</i>	<i>HK\$ 'm</i>	<i>% of total</i>	<i>HK\$ 'm</i>	<i>% of total</i>
							<i>(unaudited)</i>			
Staff expenses	348.8	48.2	353.3	47.7	375.0	47.0	177.9	46.2	213.6	52.1
Management fee expenses	51.3	7.1	52.7	7.1	52.8	6.6	26.4	6.9	26.3	6.4
Depreciation	42.3	5.9	46.7	6.3	50.8	6.4	24.3	6.3	25.7	6.3
Rental expenses	40.0	5.5	34.7	4.7	34.5	4.3	15.7	4.1	16.8	4.1
Others	240.6	33.3	253.4	34.2	284.2	35.7	140.8	36.5	127.6	31.1
Total	723.0	100.0	740.8	100.0	797.3	100.0	385.1	100.0	410.0	100.0

Finance costs

Finance costs represent interest expenses on bank borrowings. The Group's bank borrowings bear interest at a variable rate with a fixed margin over a benchmark which changes periodically.

Share of profits less losses of associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the financial statements of the Group under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or jointly controlled entity's net assets. The share of profit or loss of an associate or a jointly controlled entity of the Group is the Group's share of the post-acquisition, after-tax results of such associate or jointly controlled entity for the period. Where the Group's share of losses exceeds its interest in an associate or a jointly controlled entity, the Group's interest is reduced to nil and no further loss will be recognised.

Income tax

Profit derived by subsidiaries of the Group incorporated in Hong Kong was liable to Hong Kong profits tax at the prevailing tax rate of 17.5%.

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Pursuant to the income tax rules and regulations of the PRC, PRC subsidiaries are liable to PRC Enterprise Income Tax at a rate of 33% during the Relevant Period except for the following:

- (a) Subsidiaries which are foreign owned enterprises in the PRC are entitled to tax concessions whereby they are fully exempted from PRC enterprise income tax for 2 years starting from the first profit-making year, followed by a 50% reduction in PRC enterprise income tax for the next three years.
- (b) Certain PRC subsidiaries are situated in economic or development zones in Shanghai and Shenzhen and, therefore, enjoy a preferential PRC Enterprise Income Tax rate of 15%, according to the income tax rules and regulations in the PRC for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

Subsidiaries in Macao are liable to Macao income tax which is calculated at progressive tax rates ranging from 3% to 12% for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

Taxation for subsidiaries outside Hong Kong, Macao and the PRC is charged at the tax rates applicable ruling in the relevant tax jurisdictions during the Relevant Period as set forth below:

	<u>Income tax rate</u>
Japan	40.70%
Canada	34.12%
Singapore	18.00%*

* Tax rate for subsidiaries in Singapore were 20% for year 2004 to 2006.

The subsidiary in Bermuda is not subject to any income tax pursuant to the rules and regulations of Bermuda.

The Group's combined effective income tax rates for profit from continuing operations before share of profits less losses of associates and jointly controlled entities were 20.5%, 24.7%, 21.4% and 23.8% for the three years ended 31 December 2006 and the six months ended 30 June 2007 respectively.

Net profit margin

The Group's net profit margin has been steady, which is 2.5%, 2.4% and 2.6% for the three years ended 31 December 2006, among others, attributable to:

- Motor business: the increase in gross margin in Hong Kong motor vehicle distribution business as a result of competitive model line-up and the increase in profitability of city dealership business.
- Food business: the gross profit margin on food commodity business, after reaching its trough due to animal diseases such as Avian Flu, Streptococcus suis and weak global edible oil price in 2005, gradually pick up from the second half of 2006 onwards.

Discontinued operations

The Group's discontinued operations represent the engineering business, which has been spun-off as being non-core and generate minimal synergistic value with other existing business.

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RESULTS OF OPERATIONS

The following table shows the combined income statements of the Group and the percentage of turnover for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%	HK\$ 'm	%
	<i>(unaudited)</i>									
Turnover	11,494.1	100.0	10,520.0	100.0	12,926.4	100.0	5,842.3	100.0	6,989.0	100.0
Cost of goods sold/services	(9,872.0)	(85.9)	(8,844.5)	(84.1)	(11,022.7)	(85.3)	(4,971.2)	(85.1)	(5,934.0)	(84.9)
Gross profit	1,622.1	14.1	1,675.5	15.9	1,903.7	14.7	871.1	14.9	1,055.0	15.1
Net valuation gains on investment properties	57.1	0.5	77.2	0.7	111.7	0.9	62.6	1.1	60.8	0.9
Other revenue	101.6	0.9	107.1	1.0	123.7	1.0	55.4	0.9	61.6	0.9
Other net gain/(loss)	4.4	0.0	(4.6)	(0.0)	37.2	0.3	23.9	0.4	9.6	0.1
Selling and distribution expenses	(725.9)	(6.3)	(749.5)	(7.1)	(902.2)	(7.0)	(408.0)	(7.0)	(479.5)	(6.9)
Administrative expenses	(723.0)	(6.3)	(740.8)	(7.0)	(797.3)	(6.2)	(385.1)	(6.6)	(410.0)	(5.9)
Profit from operations	336.3	2.9	364.9	3.5	476.8	3.7	219.9	3.7	297.5	4.2
Finance costs	(20.9)		(26.4)		(42.9)		(21.8)		(23.3)	
Share of profits less losses of associates	4.5		(7.4)		(1.3)		(0.0)		1.8	
Share of profits less losses of jointly controlled entities	23.7		28.5		35.5		19.8		22.5	
Profit before taxation	343.6		359.6		468.1		217.9		298.5	
Income tax	(64.5)		(83.7)		(92.8)		(49.3)		(65.1)	
Profit for the year/period from continuing operations	279.1		275.9		375.3		168.6		233.4	
Discontinued operations										
Profit/(loss) for the year/period from discontinued operations	6.5		(24.1)		(40.2)		(11.5)		(18.3)	
Profit for the year/period	<u>285.6</u>	2.5	<u>251.8</u>	2.4	<u>335.1</u>	2.6	<u>157.1</u>	2.7	<u>215.1</u>	3.1
Attributable to:										
Equity shareholders of the Company	283.0		243.5		323.7		148.6		209.7	
Minority interests	2.6		8.3		11.4		8.5		5.4	
	<u>285.6</u>		<u>251.8</u>		<u>335.1</u>		<u>157.1</u>		<u>215.1</u>	

Net combined profit attributable to equity shareholders of the Company excluding net valuation gains on investment properties (net of deferred taxation effect), profit/loss from discontinued operations (net of taxation effect) and share options expense

Financial performance indicator, namely, net combined profit attributable to equity shareholders of the Company excluding net valuation gains on investment properties (net of deferred taxation effect), profit/loss from discontinued operations (net of taxation effect) and share options expense, presented in this Prospectus, is not a measure of financial performance under HKFRSs but is a useful tool for the Group to measure operating performance of the continuing operations. However, this financial performance indicator should not be considered in isolation or constructed as an alternative to net income or income from continuing operations or as an indicator of operating performance prepared in accordance with HKFRSs.

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During the three years ended 31 December 2006 and for the six months ended 30 June 2006 and 2007, the net combined profit attributable to equity shareholders of the Company excluding net valuation gains on investment properties (net of deferred taxation effect), profits/loss on discontinued operations (net of taxation effect) and share options expense, were HK\$234.2 million^(note 1), HK\$208.7 million^(note 2), HK\$292.1 million^(note 3), HK\$119.5 million^(note 4) and HK\$184.8 million^(note 5), respectively.

Notes:

1. For the financial year ended 31 December 2004, the net profit attributable to equity shareholders of the Company, net valuation gains on investment properties (net of deferred taxation effect), profit on discontinued operations (net of taxation effect) and share options expense, were HK\$283.0 million, HK\$44.1 million, HK\$6.5 million and HK\$1.8 million, respectively.
2. For the financial year ended 31 December 2005, the net profit attributable to equity shareholders of the Company, net valuation gains on investment properties (net of deferred taxation effect), loss on discontinued operations (net of taxation effect) and share options expense, were HK\$243.5 million, HK\$58.9 million, HK\$24.1 million and nil, respectively.
3. For the financial year ended 31 December 2006, the net profit attributable to equity shareholders of the Company, net valuation gains on investment properties (net of deferred taxation effect), loss on discontinued operations (net of taxation effect) and share options expense, were HK\$323.7 million, HK\$73.8 million, HK\$40.2 million and HK\$2.0 million, respectively.
4. For the financial period ended 30 June 2006, the net profit attributable to equity shareholders of the Company, net valuation gains on investment properties (net of deferred taxation effect), loss on discontinued operations (net of taxation effect) and share options expense, were HK\$148.6 million, HK\$42.6 million, HK\$11.5 million and HK\$2.0 million, respectively.
5. For the financial period ended 30 June 2007, the net profit attributable to equity shareholders of the Company, net valuation gains on investment properties (net of deferred taxation effect), loss on discontinued operations (net of taxation effect) and share options expense, were HK\$209.7 million, HK\$43.2 million, HK\$18.3 million and nil, respectively.

Six months ended 30 June 2007 compared to six months ended 30 June 2006

Turnover

The Group's turnover increased by 19.6%, from HK\$5,842.3 million for the six months ended 30 June 2006 to HK\$6,989.0 million for the six months ended 30 June 2007. The increase was due to a 24.3% increase in the turnover from motor segment from HK\$3,469.6 million for the six months ended 30 June 2006 to HK\$4,312.7 million for the six months ended 30 June 2007, a 12.4% increase in turnover from the food and consumer product segment from HK\$2,284.7 million for the six months ended 30 June 2006 to HK\$2,567.3 million for the six months ended 30 June 2007 and a 32.5% increase in turnover from the logistics segment from HK\$64.0 million for the six months ended 30 June 2006 to HK\$84.8 million for the six months ended 30 June 2007.

The increase in turnover from the motor segment for the six months ended 30 June 2007 compared to the same period 2006 was primarily due to an increase in volume of motor vehicles sold to the mainland Chinese market from 7,284 units for the six months ended 30 June 2006 to 10,090 unit for the same period 2007 as a result of the increasing market demand. The increase in PRC unit sales contributed the increase in turnover in the region by HK\$628.2 million from HK\$1,640.7 million for the six months ended 30 June 2006 to HK\$2,268.9 million for the same period 2007 and that increment of turnover accounted for 74.5% of the increment of the overall motor segment.

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The increase in turnover from the Group's food and consumer product segment for the six months ended 30 June 2007 compared to the six months ended 30 June 2006 was primarily due to an increase in turnover from trading of food products by 13.8% from HK\$1,915.9 million for the six months ended 30 June 2006 to HK\$2,180.8 million for the same period of 2007, primarily as a result of increase in sales of both food commodities and FMCG, which was partially offset by the slight decrease in turnover from trading of electrical appliance products from HK\$260.0 million for the six months ended 30 June 2006 to HK\$254.6 million for the same period 2007, primarily as a result of the Group's product mix re-alignment to focus more on products with higher price.

The increase in turnover from logistics segment for the six months ended 30 June 2007 compared to the same period 2006 was primarily due to a substantial growth in logistics turnover in Macao due to additional storage space available in year 2007, as well as a significant increase in volume processed of the import and export customs clearance services provided at Jiangmen, the PRC.

Cost of goods sold/services

The Group's cost of goods sold increased by 19.4% from HK\$4,971.2 million for the six months ended 30 June 2006 to HK\$5,934.0 million for the six months ended 30 June 2007, which was generally in line with the increase in turnover. In particular:

- Cost of sales of the Group's motor segment increased by 24.1% from HK\$3,016.9 million for the six months ended 30 June 2006 to HK\$3,742.6 million for the same period 2007. The percentage of change of cost of goods sold and turnover was basically in line in the period. The increase of low gross margin PRC sales did not drag down the overall gross profit margin of the motor segment as there was a gross profit margin improvement in Hong Kong business following the favorable foreign currency movement in the first half of 2007 since the purchase of motor vehicles from Japan were denominated in Yen.
- Cost of sales of the Group's food and consumer product segment increased by 11.7% from HK\$1,900.6 million for the six months ended 30 June 2006 to HK\$2,123.3 million for the same period 2007. The increase in cost of sales is lower than the increase in turnover due to key food commodity products, such as poultry, edible oil, has been fetching relatively favorable gross profit margin in 2007.
- Cost of services of the Group's logistics business increased by 26.5% from HK\$53.6 million for the six months ended 30 June 2006 to HK\$67.8 million for the same period 2007, which was primarily as a result of increase in staff costs by 11.9% due to annual increment plus head count increase for expanded third party logistics business in Hong Kong, and rental increased by 47.6% in Macao due to additional space rented.

As a percentage of the total turnover, the cost of sales decreased from 85.1% for the six months ended 30 June 2006 to 84.9% for the same period 2007.

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Gross profit and Gross profit margin

As a result of the foregoing, the Group's gross profit increased by 21.1% from HK\$871.1 million for the six months ended 30 June 2006 to HK\$1,055.0 million for the same period 2007. Gross profit margin slightly improved from 14.9% for the six months ended 30 June 2006 to 15.1% for the same period 2007.

Of the Group's gross profit for the six months ended 30 June 2007,

- HK\$607.4 million, or 57.6%, was contributed by the Group's sales in the Hong Kong and Macao market, among which HK\$314.4 million, or 51.8%, was from the motor segment, HK\$267.3 million, or 44.0%, was from the food and consumer product segment, and HK\$15.0 million, or 2.5% was from the logistics segment,
- HK\$313.1 million, or 29.7%, was contributed by the Group's sales in the PRC market, among which HK\$178.6 million, or 57.0%, was from the motor segment, HK\$132.5 million, or 42.3%, was from the food and consumer product segment, and HK\$2.0 million, or 0.7%, was from the logistics segment,
- HK\$134.5 million, or 12.7%, was contributed by the Group's sales in other markets, among which HK\$77.1 million, or 57.3%, was from the motor segment, HK\$44.2 million, or 32.9%, was from the food and consumer product segment and none from the logistics segment.

Of the Group's gross profit for the six months ended 30 June 2006,

- HK\$564.5 million, or 64.8%, was contributed by the Group's sales in the Hong Kong and Macao, among which HK\$293.5 million, or 52.0%, was from the motor segment, HK\$249.7 million, or 44.2%, was from the food and consumer product segment, and HK\$10.6 million, or 1.9%, was from the logistics segment,
- HK\$203.6 million, or 23.4%, was contributed by the Group's sales in the PRC market, among which HK\$110.8 million, or 54.4%, was from the motor segment, HK\$93.0 million, or 45.7%, was from the food and consumer product segment, which was partly offset by a gross loss of HK\$0.2 million from the logistics segment,
- HK\$103.0 million, or 11.8%, was contributed by the Group's sales in other markets, among which HK\$48.4 million, or 47.0%, was from the motor segment, HK\$41.4 million, or 40.2%, was from the food and consumer product segment and none from the logistics segment.

Net valuation gains on investment properties

The Group's net valuation gains on investment properties decreased by 2.9% from HK\$62.6 million for the six months ended 30 June 2006 to HK\$60.8 million for the six months ended 30 June 2007. The decrease was primarily due to the decrease in valuation gains on the Group's property for logistics services in Jiangmen, the PRC, in the amount of HK\$19.2 million, partially offset by increase in valuation gains on the Group's properties in Hong Kong in the amount of HK\$13.4 million.

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Other revenue and other net gain/(loss)

The Group's other revenue increased by 11.2% from HK\$55.4 million for the six months ended 30 June 2006 to HK\$61.6 million for the six months ended 30 June 2007, which was primarily due to an increase in income realized from the sale of motor accessories and an increase in commission income. Interest income also increased as a result of increase in deposit rate.

The Group's other net gain decreased by 59.8% from HK\$23.9 million for the six months ended 30 June 2006 to HK\$9.6 million for the six months ended 30 June 2007, primarily as a result of the gain realized from the disposal of properties located in Shanghai by Shanghai DCH Jiangnanfeng Co., Ltd. in 2006.

Selling and distribution expenses

The Group's selling and distribution expenses increased by 17.5% from HK\$408.0 million for the six months ended 30 June 2006 to HK\$479.5 million for the six months ended 30 June 2007, which was primarily due to the increase in other selling and distribution expenses including trade commissions, sales center and showroom expenses.

Administrative expenses

The Group's administrative expenses increased by 6.5% from HK\$385.1 million for the six months ended 30 June 2006 to HK\$410.0 million for the six months ended 30 June 2007, which was primarily due to a 20.0% increase in staff expenses as a result of the Group's expansion in motor trading business in the PRC starting from the second half of 2006.

Profit from operations

As a result of the foregoing, the Group's profit from operations increased by 35.3% from HK\$219.9 million for the six months ended 30 June 2006 to HK\$297.5 million for the same period 2007.

Finance costs

The Group's finance costs increased by 6.9% from HK\$21.8 million for the six months ended 30 June 2006 to HK\$23.3 million for the six months ended 30 June 2007, which was primarily due to the increased interest rate for the Group's borrowings.

Share of profits less losses of associates

The share of net loss of associates was HK\$0.03 million for the six months ended 30 June 2006 as compared to the share of net profit of associates of HK\$1.8 million for the six months ended 30 June 2007, which was primarily due to an increase in the profitability from a beverage manufacturing associate and a motor vehicle financing associate.

Share of net profits of jointly controlled entities

The share of net profits of jointly controlled entities increased by 13.6% from HK\$19.8 million for the six months ended 30 June 2006 to HK\$22.5 million for the six months ended 30 June 2007, which were mainly contributed by profits from the Group's jointly controlled entities engaging in the trading of cosmetics products due to the improvement in sales of such products in their respective regional markets.

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Profit before taxation

As a result of the foregoing, the Group's profit before taxation increased by 37.0% from HK\$217.9 million for the six months ended 30 June 2006 to HK\$298.5 million for the six months ended 30 June 2007.

Income tax

The Group's income tax increased by 32.0% from HK\$49.3 million for the six months ended 30 June 2006 to HK\$65.1 million for the same period in 2007, which was primarily due to the increase in profit before taxation.

Profit for the period from continuing operations

The Group's profit for the period from continuing operations increased by 38.4% from HK\$168.6 million for the six months ended 30 June 2006 to HK\$233.4 million for the six months ended 30 June 2007.

Year ended 31 December 2006 compared to year ended 31 December 2005

Turnover

The Group's turnover increased by 22.9%, from HK\$10,520.0 million for the year ended 31 December 2005 to HK\$12,926.4 million for the year ended 31 December 2006. The increase was mainly due to a 38.9% increase in turnover from the motor segment from HK\$5,532.8 million for the year ended 31 December 2005 to HK\$7,683.9 million for the year ended 31 December 2006 and a 4.7% increase in turnover from the food and consumer product segment from HK\$4,821.5 million for the year ended 31 December 2005 to HK\$5,047.1 million for the year ended 31 December 2006 and a 22.6% increase in turnover from the logistics segment from HK\$117.8 million for the year ended 31 December 2005 to HK\$144.4 million for the year ended 31 December 2006.

The increase in turnover from the motor segment for the year ended 31 December 2006 compared to the same period in 2005 was primarily due to an increase in the number of motor vehicles sold in the PRC from 9,409 units for the year ended 31 December 2005 to 17,528 units for the year ended 31 December 2006, primarily due to the increase in sales in the PRC market as a result of the recovery of vehicle sales of a major brand, as well as the increase in sales of other motor vehicles as a result of the expansion of the Group's sales channels over the country. The year-on-year increment of PRC turnover of HK\$1,858.9 million contributed 86.4% of the overall turnover increment of the motor segment, and the PRC turnover increased from HK\$1,905.8 million in 2005 to HK\$3,764.7 million in 2006.

The turnover from the Group's food and consumer product segment increased by 4.7% from HK\$4,821.5 million in 2005 compared to HK\$5,047.1 million in 2006. In particular:

- turnover from trading of food products remained stable, which was HK\$4,235.8 million for the year ended 31 December 2005 and HK\$4,229.7 million for the same period in 2006,
- turnover from trading of electrical appliances increased from HK\$435.6 million for the year ended 31 December 2005 to HK\$522.6 million for the same period in 2006 primarily as a result of the increase in sales of professional audio products, digital audio and video products and air-conditioners.

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The turnover from the logistics segment remained stable during these periods, which was HK\$117.8 million for the year ended 31 December 2005 and HK\$144.4 million for the same period in 2006 due to commencement of business with a leading Macao casino resort by mid 2006 and the expanded service scale to a Hong Kong leading convenient store chain.

Cost of goods sold/services

The Group's cost of goods sold/services increased by 24.6% from HK\$8,844.5 million for the year ended 31 December 2005 to HK\$11,022.7 million for the year ended 31 December 2006, which was generally in line with the increase in the Group's turnover. In particular:

- Cost of goods sold/services of the Group's motor vehicle segment increased by 41.8% from HK\$4,711.5 million for the year ended 31 December 2005 to HK\$6,682.1 million for the same period in 2006. Since PRC vehicle distribution has lower gross profit margin than that in Hong Kong and PRC vehicle distribution was the main contributor to the turnover growth, the overall gross profit margin of motor segment was diluted. As a result, the growth rate of cost of goods sold was faster than that of sales turnover.
- Cost of goods sold/services of the Group's food and consumer product segment increased by 4.6% from HK\$4,034.7 million for the year ended 31 December 2005 to HK\$4,220.1 million for the same period in 2006. The increase in cost of good sold is largely in line with the increase in turnover as key food commodities products such as poultry, pork and edible oil's gross profit margin in 2006 and 2005 were by and large on similar level.
- Cost of services of the Group's logistics segment increased by 22.8% from HK\$98.0 million for the year ended 31 December 2005 to HK\$120.3 million for the same period in 2006 primarily due to staff costs increased by 15.1% due to annual increment plus head count increase for expanded third party logistics business in Hong Kong and rental cost increased by 31.7% because of renewal of certain rental agreements in Hong Kong.

As a percentage to total turnover, cost of sales increased from 84.1% for the year ended 31 December 2005 to 85.3% for the same period in 2006.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased 13.6% from HK\$1,675.5 million for the year ended 31 December 2005 to HK\$1,903.7 million for the same period in 2006. Gross profit margin decreased from 15.9% for the year ended 31 December 2005 to 14.7% for the same period 2006. The decrease was attributed to a higher proportion of the Group's turnover from its motor vehicle distribution business in China, which generally realised lower gross profit margins due to intense market competition.

Of the Group's gross profit for the year ended 31 December 2006,

- HK\$1,236.7 million, or 65.0%, was contributed by the Group's sales in the Hong Kong and Macao market, among which HK\$673.2 million, or 54.4%, was from the motor segment, HK\$515.9 million, or 41.7%, was from the food and consumer product segment, and HK\$23.1 million, or 1.9% was from logistics segment,

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- HK\$473.8 million, or 24.9%, was contributed by the Group's sales in the PRC market, among which HK\$220.1 million, or 46.5%, was from the motor segment, HK\$252.7 million, or 53.3%, was from the food and consumer product segment, and HK\$1.0 million, or 0.2%, was from the logistics segment,
- HK\$193.2 million, or 10.1%, was contributed by the Group's sales in other markets, among which HK\$108.5 million, or 56.2%, was from the motor segment, HK\$58.4 million, or 30.2%, was from the food and consumer product segment and none from the logistics segment.

Of the Group's gross profit for the year ended 31 December 2005,

- HK\$1,153.7 million, or 68.9%, was contributed by the Group's sales in the Hong Kong and Macao market, among which HK\$616.4 million, or 53.4%, was from the motor segment, HK\$502.1 million, or 43.5%, was from the food and consumer product segment, and HK\$19.0 million, or 1.6% was from the logistics segment,
- HK\$310.5 million, or 18.5%, was contributed by the Group's sales in the PRC market, among which HK\$114.6 million, or 36.9%, was from the motor segment, HK\$195.1 million, or 62.8%, was from the food and consumer product segment, and HK\$0.8 million, or 0.3%, was from the logistics segment,
- HK\$211.3 million, or 12.6%, was contributed by the Group's sales in other markets, among which HK\$90.3 million, or 42.7%, was from the motor segment, HK\$89.6 million, or 42.4%, was from the food and consumer product segment and none from the logistics segment.

Net valuation gains on investment properties

The Group's valuation gains on investment properties increased by 44.7% from HK\$77.2 million for the year ended 31 December 2005 to HK\$111.7 million for the year ended 31 December 2006. The increase was primarily due to the increase in revaluation gains of the Group's owned commercial buildings in Japan and the land for future development in Xinhui, the PRC in the amount of HK\$77.6 million due to the improved real estate market in these regions, partially offset by drop in valuation gains on the Group's properties in Hong Kong in the amount of HK\$37.2 million.

Other revenue and other net gain/loss

The Group's other revenue increased by 15.5% from HK\$107.1 million for the year ended 31 December 2005 to HK\$123.7 million for the year ended 31 December 2006, which was primarily due to an increase in referral fees received from motor vehicle insurers and hire purchase companies in connection with the Group's motor vehicle sales. Interest income of the Group also increased as a result of increase in deposit rate.

The Group's other net gain/loss comprised primarily gain/loss derived from the disposal of fixed assets and foreign exchange gain/loss. The Group's other net loss was HK\$4.6 million for the year ended 31 December 2005, primarily as a result of net loss from disposal of 廣州-大昌合資汽車服務有限公司 (Guangzhou-Dah Chong Joint Venture Motor Service Co., Ltd.) and net foreign exchange loss due to the depreciation of the Japanese Yen against the Hong Kong dollar derived from the Group's receivables denominated in Japanese Yen, as compared to other net gain of HK\$37.2 million for the year ended 31 December 2006, primarily as a result of the gains from the disposal of investment properties located in Shanghai by Shanghai DCH Jiangnanfeng Co., Ltd.

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Selling and distribution expenses

The Group's selling and distribution expenses increased by 20.4% from HK\$749.5 million for the year ended 31 December 2005 to HK\$902.2 million for the year ended 31 December 2006, which was primarily due to an increase in staff costs by 25.0% as a result of increase in headcount, and an increase in advertising and promotion expenses by 65.6% primarily as a result of expansion of liquor distribution business in the PRC.

Administrative expenses

The Group's administrative expenses increased by 7.6% from HK\$740.8 million for the year ended 31 December 2005 to HK\$797.3 million for the year ended 31 December 2006, which was primarily due to an increase in staff costs by 6.1% as a result of the Group's expansion in its motor vehicle trading business in the PRC.

Profit from operations

As a result of the foregoing, the Group's profit from operations increased by 30.7% from HK\$364.9 million for the year ended 31 December 2005 to HK\$476.8 million for the same period in 2006.

Finance costs

Finance costs comprise interest on bank borrowings. The Group's finance costs increased by 62.5% from HK\$26.4 million for the year ended 31 December 2005 to HK\$42.9 million for the year ended 31 December 2006, which was primarily due to increased borrowings to fund investments in motor vehicle dealerships, as well as the increased interest rate for such borrowings.

Share of profits less losses of associates

The share of net losses of associates decreased by 82.4% from HK\$7.4 million for the year ended 31 December 2005 to HK\$1.3 million for the year ended 31 December 2006. It was contributed by, among the others, the improvement in operating results of a beverage manufacturing associate from 2005 to 2006 as there was a high initial set-up cost in 2005. The share of net losses of associates for the year ended 31 December 2006 was also affected by a decrease in profits of another associated company engaging in motor vehicle financing business primarily due to increased cost of funding its lending business.

Share of profits less losses of jointly controlled entities

The share of net profits of jointly controlled entities increased by 24.6% from HK\$28.5 million for the year ended 31 December 2005 to HK\$35.5 million for the year ended 31 December 2006, which were mainly contributed by profits from the Group's jointly controlled entities engaging in the trading of cosmetics products and motor vehicles due to the improvement in sales of such products in their respective regional markets.

Profit before taxation

As a result of the foregoing, the Group's profit before taxation increased by 30.2% from HK\$359.6 million for the year ended 31 December 2005 to HK\$468.1 million for the year ended 31 December 2006.

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Income tax

The Group's income tax increased by 10.9% from HK\$83.7 million for the year ended 31 December 2005 to HK\$92.8 million for the same period 2006, which was primarily due to the increase in profit before taxation.

Profit for the year from continuing operations

The Group's profit for the year from continuing operations increased by 36.0% from HK\$275.9 million for the year ended 31 December 2005 to HK\$375.3 million for the year ended 31 December 2006.

Year ended 31 December 2005 compared to year ended 31 December 2004

Turnover

The Group's turnover decreased by 8.5% from HK\$11,494.1 million for the year ended 31 December 2004 to HK\$10,520.0 million for the year ended 31 December 2005. The decrease was primarily due to a decrease in turnover from the Group's motor segment, which decreased by 17.2% from HK\$6,681.0 million for the year ended 31 December 2004 to HK\$5,532.8 million for the same period 2005, partially offset by an increase in turnover from the Group's food and consumer products segment, which increased by 3.1% from HK\$4,677.8 million for the year ended 31 December 2004 to HK\$4,821.5 million for the same period 2005, and an increase in turnover from the logistics business, which increased by 37.6% from HK\$85.6 million for the year ended 31 December 2004 to HK\$117.8 million for the same period 2005.

The decrease in turnover from the motor segment was primarily due to a significant drop in sales of motor vehicles in the PRC, which decreased by 42.5% from HK\$3,314.2 million for the year ended 31 December 2004 to HK\$1,905.8 million for the same period in 2005. This was primarily due to a significant drop in sales of motor vehicles provided by one of the Group's major motor vehicle principals in 2005 as a result of the decrease and delay in supply of motor vehicles provided by such motor vehicle principal caused by the implementation of a component replacement scheme related to one model of motor vehicle, and to apply for the China Compulsory Certification (CCC), a mandatory certification system concerning product safety in the PRC, for the new model. Such decrease in turnover was partially offset by an increase in turnover and units sold by the Group's dealerships for other motor vehicle brands in the PRC and the motor vehicle distribution business in Hong Kong. As a result of the foregoing, the sales volume of motor vehicles of the Group in the PRC decreased by 24.9% from 12,527 units for the year ended 31 December 2004 to 9,409 units for the year ended 31 December 2005.

The increase in turnover from the Group's food and consumer products segment was primarily attributable to:

- an increase in sales of food products by 0.8% from HK\$4,204.1 million for the year ended 31 December 2004 to HK\$4,235.8 million for the same period in 2005, which was primarily due to increase in sales in the PRC market of China-sourced frozen meat, edible oil products, beans and marine products in Japanese market, which was partially offset by a decrease in sales of FMCG products as a result of the discontinued sale of certain low profit margin product lines in Mainland China,
- an increase in sales of electrical appliances by 9.6% from HK\$397.3 million for the year ended 31 December 2004 to HK\$435.6 million for the same period 2005, which was primarily due to the increase in sales of air-conditioners and professional audio products for the entertainment business in the PRC.

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The increase in turnover from the logistics segment in 2005 compared to 2004 was primarily due to Hong Kong logistics' turnover growth which was mainly due to an increase in delivery service volume for a Hong Kong leading convenient store chain as the business started from November 2004 onwards, as well as an increase in turnover from the provision of customs clearance services to its customers in Southern China.

Cost of goods sold/services

The Group's cost of goods sold/services decreased by 10.4% from HK\$9,872.0 million for the year ended 31 December 2004 to HK\$8,844.5 million for the year ended 31 December 2005. The decrease in cost of goods sold/services was primarily due to decrease in cost of goods sold/services in the motor distribution and dealership business.

- Cost of goods sold/services of the Group's motor distribution and dealership decreased by 21.4% from HK\$5,107.4 million for the year ended 31 December 2004 to HK\$4,012.8 million for the same period 2005. The lower rate of decline for cost of goods sold than that in turnover was due to the decline in turnover was mainly triggered by the PRC business, which has a lower gross profit margin than the Hong Kong business. As the PRC business turnover accounted for smaller portion of the overall turnover, the overall gross profit margin of the motor segment improved and thus the rate of decline of cost of goods sold was less than that of turnover.
- In the food and consumer products segment, the increase in cost of goods sold is larger than the increase in turnover as key food commodity products such as pork and edible oil's gross profit margin got slimmer in 2005 due to unfavorable market environment.
- Cost of service of the Group's logistics business increased by 42.2% from HK\$68.9 million for the year ended 31 December 2004 to HK\$98.0 million for the same period 2005, which was primarily due to expanded third party logistics business in Hong Kong (mainly due to commencement of service provision to a Hong Kong leading convenient store chain from Nov 2004 onwards) which cause the Group's staff costs increased by 46.3%.

As a percentage of total turnover, cost of sales decreased from 85.9% for the year ended 31 December 2004 to 84.1% for the same period 2005.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by 3.3% from HK\$1,622.1 million for the year ended 31 December 2004 to HK\$1,675.5 million for the same period 2005. Gross profit margin increased from 14.1% for the year ended 31 December 2004 to 15.9% for the same period 2005.

Of the Group's gross profit for the year ended 31 December 2004,

- HK\$1,116.4 million, or 68.8%, was contributed by the Group's sales in the Hong Kong and Macao market, among which HK\$567.9 million, or 50.9%, was from the motor segment, HK\$517.3 million, or 46.3%, was from the food and consumer product segment, and HK\$16.7 million, or 1.5% was from the logistics segment,
- HK\$292.3 million, or 18.0%, was contributed by the Group's sales in the PRC market, among which HK\$119.2 million, or 40.8%, was from the motor segment, HK\$173.1 million, or 59.2%, was from the food and consumer product segment, and none was from the logistics segment,

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- HK\$213.4 million, or 13.2%, was contributed by the Group's sales in other markets, among which HK\$90.3 million, or 42.3%, was from the motor segment, HK\$88.1 million, or 41.3%, was from the food and consumer product segment and none from the logistics segment.

Net valuation gains on investment properties

The Group's valuation gains on investment properties increased by 35.2% from HK\$57.1 million for the year ended 31 December 2004 to HK\$77.2 million for the year ended 31 December 2005, which was primarily due to the increase in revaluation gains of the Group's properties in Hong Kong in the amount of HK\$3.0 million, and commercial buildings in Japan in the amount of HK\$10.8 million, as a result of a strong performance in overall real estate market in these two regions.

Other revenue and other net gain/loss

The Group's other revenue increased by 5.4% from HK\$101.6 million for the year ended 31 December 2004 to HK\$107.1 million for the year ended 31 December 2005. Such increase was primarily due to an increase in referral fees from motor vehicle insurers and hire purchase companies, as well as allowance received from the Group's food suppliers for promoting their products.

The Group's other net gain was HK\$4.4 million for the year ended 31 December 2004, primarily contributed by an exchange gain of HK\$9.3 million, partially offset by loss on disposal of Shenzhen Dah Chong Motor Service Co., Ltd. (深圳大昌汽車服務有限公司) of HK\$3.2 million and loss incurred by disposal of fixed assets. The Group's other net loss was HK\$4.6 million for the year ended 31 December 2005, primarily as a result of a net loss from disposal of Guangzhou–Dah Chong Joint Venture Motor Service Co., Ltd. (廣州–大昌合資汽車服務有限公司) and net foreign exchange loss due to the depreciation of the Japanese Yen against the Hong Kong dollar derived from the Group's receivables denominated in Japanese Yen.

Selling and distribution expenses

The Group's selling and distribution expenses increased by 3.3% from HK\$725.9 million for the year ended 31 December 2004 to HK\$749.5 million for the year ended 31 December 2005, primarily due to an increase in sales commission expenses by 32.9% payable to sales personnel for motor sales.

Administrative expenses

The Group's administrative expenses slightly increased by 2.5% from HK\$723.0 million for the year ended 31 December 2004 to HK\$740.8 million for the year ended 31 December 2005. Such increase was primarily due to an increase in other administrative expenses by 5.3%, including office running expenses, consultation fee and impairment loss on fixed assets.

Profits from operations

As a result of the foregoing, the Group's profits from operations increased by 8.5% from HK\$336.3 million for the year ended 31 December 2004 to HK\$364.9 million for the same period in 2005.

Finance costs

The Group's finance costs increased by 26.3% from HK\$20.9 million for the year ended 31 December 2004 to HK\$26.4 million for the year ended 31 December 2005, primarily due to increase in both bank borrowings and the interest rate for such borrowings for the Group's expansion in its motor trading business in the PRC.

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Share of profits less losses of associates

The share of net profits of associates for the year ended 31 December 2004 was HK\$4.5 million compared to a share of net loss of associates of HK\$7.4 million for the year ended 31 December 2005. The share of net loss of associates for the year ended 31 December 2005 was, amongst the others, due to initial investment costs of a beverage manufacturing joint venture for such period, primarily as a result of high marketing and other costs to introduce its products into the PRC and high initial set-up costs. The share of net losses of associates for the year ended 31 December 2005 was also affected by a decrease in profits of another associated company engaging in motor vehicle related business primarily due to its increased cost of funding for its lending business.

Share of profits less losses of jointly controlled entities

The share of net profits of jointly controlled entities increased by 20.3% from HK\$23.7 million for the year ended 31 December 2004 to HK\$28.5 million for the year ended 31 December 2005, primarily contributed by the profits made by the Group's jointly controlled entities in cosmetics product and motor vehicle trading businesses due to the improvement in sales of such products in their respective regional markets.

Income tax

Provisions for income tax increased by 29.8% from HK\$64.5 million for the year ended 31 December 2004 to HK\$83.7 million for the year ended 31 December 2005. The increase in income tax payment was primarily due to the increased proportion of the Group's profits in overseas and the PRC where higher income tax rates were applied.

Profit for the year from continuing operations

The Group's profit for the year from continuing operations decreased by 1.1% from HK\$279.1 million for the year ended 31 December 2004 to HK\$275.9 million for the year ended 31 December 2005 primarily as a result of the decline in the motor vehicles business due to a product recall and new certifications required in the PRC.

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MAJOR BALANCE SHEET ITEMS

	As of 31 December			As of 30 June
	2004	2005	2006	2007
	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>
Inventories	1,454.9	1,386.6	1,529.2	1,759.9
Trade receivables	1,163.8	1,032.5	1,255.9	1,201.5
Bills receivable	26.4	29.2	25.4	16.8
Trade receivables and bills receivable	1,190.2	1,061.7	1,281.3	1,218.3
Other receivables, deposits and prepayments	525.2	988.3	860.9	874.1

The ageing analysis (based on dates of invoices) of trade receivables (net of impairment losses for bad and doubtful debts) and bills receivable of the Group as of each balance sheet date are as follows:

	As of 31 December			As of 30 June	
	2004	2005	2006	2007	
	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>% of total</i>
Within 3 months	1,099.9	977.8	1,203.4	1,167.4	96%
More than 3 months but less than 1 year	84.0	70.9	70.5	49.0	4%
1 year to 3 years	6.3	13.0	7.4	1.9	0%
	1,190.2	1,061.7	1,281.3	1,218.3	100%
Balance settled up to 15 August 2007				(850.0)	(70%)
				368.3	30%

	As of 31 December			As of 30 June
	2004	2005	2006	2007
	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>
Trade payables	542.2	495.1	596.5	496.9
Bills payable	37.5	43.3	200.3	133.0
	579.7	538.4	796.8	629.9
Other payables and accrued charges	678.3	698.3	799.3	868.7

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The ageing analysis (based on overdue dates) of trade payables and bills payable for the Group as of each balance sheet date are as follows:

	As of 31 December			As of 30 June	
	2004	2005	2006	2007	
	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>HK\$' m</i>	<i>% of total</i>
Current or within 1 month	524.0	500.1	752.2	543.2	86%
1 to 3 months	27.3	11.9	23.6	66.9	11%
3 to 6 months	24.3	16.2	7.2	14.3	2%
6 months to 3 years	4.1	10.2	13.8	5.5	1%
	579.7	538.4	796.8	629.9	100%
Balance paid up to 15 August 2007				(443.0)	(70%)
				186.9	30%

Inventories

Inventory balance decreased from HK\$1,454.9 million as at 31 December 2004 to HK\$1,386.6 million as at 31 December 2005, mainly due to decrease in stock of motor business as a result of a drop in turnover of the segment.

Inventory balance increased from HK\$1,386.6 million as at 31 December 2005 to HK\$1,529.2 million as at 31 December 2006, mainly as a result of acquisition of several motor companies in the year.

Inventory balance increased from HK\$1,529.2 million as at 31 December 2006 to HK\$1,759.9 million as at 30 June 2007 mainly due to seasonal factor since passenger car business generally clear stock at year end to avoid stock to become "old fashioned" in next year and keep more stock at mid-year for the high season in the second half of the year.

Up to 21 August 2007, inventories with cost of HK\$916.4 million had been subsequently sold, which amounted to 52% of total balance as at 30 June 2007.

Trade receivables and bills receivable

Trade receivables and bills receivable decreased from HK\$1,190.2 million as at 31 December 2004 to HK\$1,061.7 million as at 31 December 2005. Drop in trade receivables was mainly due to substantial decrease of imported car sales in the PRC.

Trade receivables and bills receivable increased from HK\$1,061.7 million as at 31 December 2005 to HK\$1,281.3 million as at 31 December 2006. Increase in trade receivables mainly due to the recovery of imported car sales in the PRC.

Trade receivables and bills receivable decreased from HK\$1,281.3 million as at 31 December 2006 to HK\$1,218.3 million as at 30 June 2007. Decrease in balance was mainly due to drop in FMCG trading business's balance by HK\$148.3 million, partly offset by increase in motor business's balance. FMCG sales reached seasonal high near year end due to Chinese New Year effects which increase trade receivables at year end, while trade debtors settle their balances after credit period and thus trade receivables balance dropped back to lower level at interim period end.

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As at 30 June 2007, 96% of trade receivables and bills receivable are aged within 3 months based on invoice dates. Up to 15 August 2007, HK\$850.0 million had been subsequently settled, which comprised 70% of total balance as at 30 June 2007.

Other receivables, deposits and prepayments

Other receivables, deposits and prepayments increased from HK\$525.2 million as at 31 December 2004 to HK\$988.3 million as at 31 December 2005. The increase was mainly due to increase in the Group's investments in city dealership in the PRC in 2005, which amount was recorded as other receivables prior to completion of approval process with principals. On the other hand, there was increase in advanced payment to suppliers for purchasing motor inventories to meet market demand. In addition, deposit was paid for purchase of land for the Group's development of logistics business in Xinhui.

Other receivables, deposits and prepayments decreased from HK\$988.3 million as at 31 December 2005 to HK\$860.9 million as at 31 December 2006. The decrease was mainly due to the completion of the Group's investments in city dealership in the PRC in 2006.

Trade payables and bills payable

Trade payables and bills payable decreased from HK\$579.7 million as at 31 December 2004 to HK\$538.4 million as at 31 December 2005 mainly due to substantial decrease of imported car sales in the PRC.

Trade payables increased from HK\$538.4 million as at 31 December 2005 to HK\$796.8 million as at 31 December 2006 mainly due to recovery of imported car sales in China and increase in balances of newly acquired and established motor trading subsidiaries in the PRC.

Trade payables and bills payable decreased from HK\$796.8 million as at 31 December 2006 to HK\$629.9 million as at 30 June 2007. The decrease was mainly due to a drop in FMCG trading business's balance by HK\$68.0 million. FMCG trading business reached seasonal high near year end due to Chinese New Year effects which increased trade payable at year end, while balance dropped to lower level after payment made before interim period end.

As at 30 June 2007, 97% of trade payables and bills payable were within 3 months based on overdue dates. Up to 15 August 2007, HK\$443.0 million had been subsequently paid, which comprised 70% of total balance as at 30 June 2007.

Other payables and accrued charges

The balance of other payables and accrued charges remained stable between year ended 2004 and year ended 2005. Balance increased from HK\$698.3 million as at 31 December 2005 to HK\$799.3 million as at 31 December 2006 mainly due to increase in deposits or advance received by newly acquired and established motor trading subsidiaries.

Other payables and accrued charges increased from HK\$799.3 million as at 31 December 2006 to HK\$868.7 million as at 30 June 2007 mainly due to increase in the Group's provision for year end bonus since bonus are paid to employees near but before year end.

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WORKING CAPITAL ANALYSIS

Liquidity ratios

	For the years ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006 ⁽⁴⁾ <i>(unaudited)</i>	2007 ⁽⁴⁾
Inventory turnover days ⁽¹⁾	50	59	48	53	50
Trade receivable turnover days ⁽²⁾	36	39	33	31	32
Trade payable turnover days ⁽³⁾	21	23	22	18	22

Notes:

- (1) Inventory turnover days means the average amount of beginning and ending inventory balances divided by cost of sales and multiplied by 365 days.
- (2) Trade receivable turnover days means the average amount of beginning and ending balances of bills receivable and trade receivable divided by sales and multiplied by 365 days.
- (3) Trade payable turnover days means the average amount of beginning and ending balances of bills payable and trade payable divided by cost of goods sold/services and multiplied by 365 days.
- (4) The above 3 liquidity ratios calculated for the six months ended 30 June 2006 and 2007 are based on 180 days.

Inventory turnover days

The Group has formulated a set of inventory policies which enable it to maintain an optimal inventory level. According to the inventory policy, the Group projects inventory level by estimating the turnover day for the goods. The inventory turnover days were usually calculated based on the days for shipment, production turnaround and storage (which is usually around 1 month), plus seasonal factors. All these estimations are made in the Group's ERP system for inventory procurement, through which the Group can readily access updated information on the goods for trade on a daily basis. Based on these policies, the Group maintains inventory necessary to sustain one to two months' sales.

The Group's inventory turnover days for 2004, 2005 and 2006 were 50, 59 and 48, respectively. The increase in the inventory turnover days from 2004 to 2005 was primarily due to the decrease in sales of motor vehicle business in the PRC in 2005, which increased inventory turnover days for that year as such sales were made on an indent basis where the Group was not required to keep inventory. The decrease in the inventory turnover days from 2005 to 2006 was primarily due to the increase in such sales, as well as the acquisition of new motor companies with sole dealership of popular brands in the PRC with low inventory turnover days in 2006.

For the six months ended 30 June 2007, the Group's inventory turnover days was 50. This decrease in the inventory turnover days as compared to the six months ended 30 June 2006 was primarily due to the acquisition of new motor distributors in the PRC with lower stock turnover days in the second half of 2006.

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Trade receivable turnover days

The Group's motor vehicles trading business is primarily settled in cash upon delivery. The Group's food and consumer products generally extends to its customers credit terms ranging from 0 to 90 days following the date of delivery of its products. The Group may adjust its usual credit terms according to a customer's credit history as well as local market practice. The Group also allows certain of its major customers to pay by using letter of credit with maturities up to 120 days.

The Group has adopted internal control measures in relation to payment arrangements with its customers, whereby it conducts a creditworthiness assessment on the relevant customer's assets and liabilities, financial strength and prior dealing history before approving any such arrangement. Once the arrangement has been approved, the Group frequently and closely monitors the settlements from customers to ensure that outstanding balances are timely followed up and customers with financial difficulties are handled at an early stage.

The Group's trade receivable turnover days for 2004, 2005 and 2006 were 36, 39 and 33, respectively. The increase in the trade receivable turnover days from 2004 to 2005 resulted principally from substantial decrease of imported car sales in the PRC which sales are settled by cash or letter of credit. The decrease in the trade receivable turnover days from 2005 to 2006 resulted principally due to recovery of imported car sales in the PRC.

For the six months ended 30 June 2007, the Group's trade receivable turnover days was 32, which was similar to the trade receivable turnover days for the six months ended 30 June 2006.

Trade payable turnover days

The Group's trade payable turnover days for 2004, 2005 and 2006 were 21, 23 and 22, respectively. The increase in trade payable turnover days in 2005 was primarily due to increase of purchase from a supplier with a longer credit. The decrease in the trade payable turnover days from 2005 to 2006 was primarily due to the increase in motor trading business in the PRC in 2006, where purchase price payable to local motor manufacturers were made in cash or by letter of credit with no credit term granted for such purchase.

For the six months ended 30 June 2007, the Group's trade payable turnover days was 22. The increase in trade payable turnover days as compared to six months ended 30 June 2006 resulted primarily from increase in bills payable which was in line with expansion of the motor trading business.

Capital risk management

Consistent with others in the industry, the Group monitors capital on the bases of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank borrowings as shown in the combined balance sheets less cash and bank deposits. Total capital is calculated as shareholders' funds (i.e. total equity attributable to equity shareholders of the Company), as shown in the combined balance sheets, plus net debt.

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The gearing ratios as at 31 December 2004, 2005 and 2006 and 30 June 2007 were as follows:

	As of 31 December			As of 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total bank borrowings	515,538	783,109	864,025	936,334
Less: cash and bank deposits	(587,814)	(530,735)	(741,728)	(649,502)
Net (cash)/debt	(72,276)	252,374	122,297	286,832
Shareholders' funds	3,361,430	3,374,299	3,655,121	3,900,535
Total capital	3,289,154	3,626,673	3,777,418	4,187,367
Gearing ratio	(2.20)%	6.96%	3.24%	6.85%

Gearing ratio increased from the year 2004 to 2005 because of an increase in total bank borrowings in both Hong Kong and the PRC to fund increased investments in the PRC, as well as for the working capital for the new projects in the PRC. The gearing ratio decreased in 2006 compared to the year 2005 because there was more cash at year ended 2006 due to new capital injection to motor distributors in the PRC. Besides, there were also more foreign currencies held for hedging purpose in Hong Kong. The gearing ratio increased in the six months ended 30 June 2007 compared to the year ended 31 December 2006 was due to an increase in total bank borrowings from HK\$864.0 million to HK\$936.3 million as a result of increased bank borrowings in the PRC and a decrease in cash and bank deposits from HK\$741.7 million to HK\$649.5 million.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

The principal sources of liquidity and capital resources of the Group have been, and are expected to continue to be, cash flow from operations and bank borrowings. The principal uses of cash of the Group have been and are expected to continue to be purchases of inventory for the Group's trading business, investment in fixed assets and investment in associates and jointly controlled entities for the expansion of the Group's trading and logistic businesses. As at 30 June 2007, the Group had cash and bank deposits of HK\$649.5 million.

As at 31 December 2004, 2005 and 2006, the Group had net current assets, defined as the current assets less current liabilities, of HK\$1,981.2 million, HK\$1,978.0 million and HK\$1,831.3 million, respectively.

As at 31 August 2007, being the Latest Practicable Date for the purpose of this net current asset statement, the Group had net current assets of HK\$2,078.0 million. The current assets primarily comprised inventories of HK\$1,834.6 million, trade and other receivables of HK\$2,268.8 million and cash and bank deposits of HK\$971.3 million. The current liabilities primarily comprised trade and other payables of HK\$1,827.7 million, bank loans and overdrafts of HK\$1,091.9 million.

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Based on its current and anticipated levels of operations and conditions in its markets and industry, the Group believes that its cash and bank deposits, cash flow from operations, availability under its credit facilities will enable it to meet its working capital, capital expenditures, dividend payments to shareholders and other funding requirements for the foreseeable future. However, the Group's ability to fund its working capital needs, repay its indebtedness and finance other obligations depend on its future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by its end-user customers in the regions in which it sells its products and other factors, many of which are beyond its control. Any future significant acquisition or expansion may require additional capital and there is no assurance that such capital will be available to the Group on acceptable terms, if at all.

In general, the Group has the ability to generate adequate cash from its operations to fund its on-going operating cash needs and the continuing expansion of the Group's business. Due to seasonal fluctuation, the Group may use short-term bank borrowings to finance its operations and repay bank borrowings once the funding position is in surplus. If cash surplus cannot fully repay the bank borrowings at the maturity dates, the Group will repay part of the bank borrowings and rollover the residuals. The Group has a repayment schedule which takes into the consideration of its cash flow pattern. For new businesses, capital injection will mainly be financed by the Group's surplus fund while working capital will be financed by bank borrowings, if necessary. The Group will use part of the proceeds from the Global Offering to fulfill its capital commitments for future expansion.

Cash Flows

The following table shows the combined cash flow statements of the Group for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	For the years ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$ 'm</i>	<i>HK\$ 'm</i>	<i>HK\$ 'm</i>	<i>HK\$ 'm</i>	<i>HK\$ 'm</i>
				<i>(unaudited)</i>	
Net cash generated from operating activities	611.5	21.0	378.9	206.4	131.2
Net cash used in investing activities	(247.9)	(140.9)	(99.7)	(14.4)	(61.8)
Net cash (used in)/generated from financing activities	(357.1)	46.8	(64.4)	(98.4)	(188.2)
Net increase/(decrease) in cash and cash equivalents	6.5	(73.1)	214.8	93.6	(118.8)

Net cash generated from operating activities

The Group's net cash generated from operating activities reflects the Group's profit for the year/period, as the case may be, as adjusted for non-cash items, such as depreciation and amortisation, and the effects of changes in working capital, such as increases or decreases in inventories, trade and other receivables, and trade and other payables. The Group's net cash generated from operating activities was HK\$611.5 million for 2004, HK\$21.0 million for 2005 and HK\$378.9 million for 2006. The Group's net cash generated from operating activities for the six months ended 30 June 2006 was HK\$206.4 million as compared to HK\$131.2 million for the six months ended 30 June 2007.

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The decrease in net cash generated from operating activities for the six months ended 30 June 2007 as compared to the same period 2006 was mainly due to an increase in inventories for the six months ended 30 June 2007 compared to the same period 2006 as a result of an increase in inventory level of edible oil by HK\$67.8 million for the six months ended 30 June 2007 as compared to a decline of such inventory by HK\$27.9 million for the six months ended 30 June 2006 to support the growth in sales of such products in the PRC in 2007, as well as lower decrease in trade and other receivables for the six months ended 30 June 2007 as compared to the same period 2006, which was primarily due to (i) growth in trade and other receivables relating to the Hong Kong motor business for the six months ended 30 June 2007 compared to a decline of trade and other receivables for the six months ended 30 June 2006 as a result of the increase in sales in Hong Kong motor market in 2007 and (ii) the magnitude of decline in trade and other receivables relating to the PRC motor business for the six months ended 30 June 2007 is greater than the magnitude of decline of trade and other receivables for the six months ended 30 June 2006 and (iii) the speed of motor delivery from principals is increasing so more prepayment changed to purchase in 2007 when compared to 2006.

The increase in net cash generated from operating activities in 2006 as compared to 2005 were primarily due to (i) an increase in operating profits before changes in working capital from HK\$358.9 million in 2005 to HK\$490.0 million in 2006 and (ii) an increase of HK\$140.4 million in trade and other payables in 2006 as compared to a decrease of HK\$48.5 million in 2005.

The decrease in net cash generated from operating activities in 2005 as compared to 2004 was primarily due to (i) a decrease in the operating profits before changes in working capital from HK\$445.8 million in 2004 to HK\$358.9 million in 2005, (ii) an increase of HK\$292.5 million in trade and other receivables in 2005 as compared to a decrease of HK\$507.5 million in 2004. The increase in trade and other receivables in 2005 was mainly due to an increase in advanced payment to suppliers of HK\$193.3 million as a result of an increase in motor sales in Hong Kong. Purchase terms for some brands, including Audi, Bentley, Honda and MAN, require prepayment before delivery. The decrease in trade and other receivables in 2004 was primarily a result of the decrease in the discounted bills receivables relating to the sales of Isuzu motor vehicles in the PRC in the last quarter of 2004.

Net cash used in investing activities

The Group's net cash used in investing activities was HK\$247.9 million in 2004, HK\$140.9 million and HK\$99.7 million for the years ended 31 December 2004, 2005 and 2006, respectively. The Group's net cash used in investing activities for the six months ended 30 June 2006 was HK\$14.4 million as compared to HK\$61.8 million for the six months ended 30 June 2007.

The increase in net cash used in investing activities for the six months ended 30 June 2007 as compared to the same period 2006 was primarily due to in 2006, the Group's net cash used in investing activities was offset by the investment proceeds from sale of a parcel of land in Shanghai and a special dividend received from a jointly controlled entity. Set aside this investment proceeds, the Group's net cash used in purchase of fixed assets and net cash generated from disposal of fixed assets have both dropped for the six months ended 30 June 2007 after the peak of motor leasing fleet renewal for the Group's logistic business in Hong Kong and Canada occurred in 2006.

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The decrease in net cash used in investing activities in 2006 compared to 2005 was primarily due to (i) HK\$56.2 million of advanced payment for the purchase of subsidiaries in 2005, (ii) net repayment of HK\$5.2 million from associates in 2006 as compared to the net advance of HK\$33.0 million to associates in 2005, and (iii) an increase in dividends received from jointly controlled entities of HK\$49.5 million in 2006 and of HK\$24.9 million in 2005, which were partially offset by (a) the increase in the amount of payment for the purchase of fixed assets, net of proceeds from disposal of fixed assets, which was HK\$160.6 million in 2006 and HK\$105.0 million in 2005, and (b) repayment of HK\$34.9 million from a fellow subsidiary in 2005, where there was an advance of HK\$4.5 million in 2006.

The decrease in net cash used in investing activities in 2005 compared to 2004 was primarily due to (i) a lower amount of payment for the purchase of fixed assets, net of proceeds from disposal of fixed assets, which was HK\$105.0 million in 2005 and HK\$146.3 million in 2004, while the larger amount of 2004 was mainly the result of cash used in the purchase of new motor vehicles for the motor leasing business in Hong Kong and Canada and (ii) net receipts of repayment of loans from jointly controlled entities of HK\$6.9 million in 2005, as compared to net advances to jointly controlled entities of HK\$55.3 million in 2004.

Net cash used in/generated from financing activities

The Group's net cash used in financing activities was HK\$357.1 million in 2004, net cash generated from financing activities was HK\$46.8 million in 2005, compared to net cash used in financing activities of HK\$64.4 million in 2006. The Group's net cash used in financing activities for the six months ended 30 June 2006 was HK\$98.4 million as compared to HK\$188.2 million for the six months ended 30 June 2007.

The increase in net cash used in financing activities for the six months ended 30 June 2007 compared to the same period 2006 was mainly due to repayment of shareholder's advances in the amount of HK\$202.0 million for the six months ended 30 June 2007 as compared to shareholder's advances in the amount of HK\$27.4 million for the same period 2006, which was offset by an increase in bank borrowings in the amount of HK\$36.0 million for the six months ended 30 June 2007 as compared to repayment of bank loans in the amount of HK\$103.9 million for the same period 2006.

The Group's net cash used in financing activities in 2006 compared to net cash generated from financing activities in 2005 was primarily due to an increase in repayment of bank borrowings in Hong Kong resulted from increased cash flow from business operations in this region, which was partially offset by an increase in proceeds from bank borrowings in 2006 which was primarily the new bank loans from banks in the PRC for the expansion of the Group's motor dealership business in the PRC.

The Group has net cash generated from financing activities in 2005 compared to net cash used in financing activities in 2004. This was primarily due to a net repayment of bank loans of HK\$652.6 million in 2004, as compared to net proceeds from bank loans of HK\$241.5 million in 2005, resulted from the decrease in the outstanding amount of bank loans relating to its trade receivable factoring as a result of reduced turnover in 2005. This was partially offset by an advance from ultimate holding company of HK\$453.9 million in 2004 relating to the purchase consideration for the Sims Trading acquisition.

Capital Expenditures

The Group has made capital expenditures, primarily in connection with the expansion of its motor vehicle dealership business in various locations in the PRC, motor leasing business in Hong Kong, Canada and the PRC, food processing facilities and modern logistics warehouse hub in Xinhui, Jiangmen, the PRC, and addition of properties, plant and equipment. The total capital expenditures amounted to HK\$171.2 million, HK\$148.1 million, HK\$431.1 million and HK\$86.1 million for the three years ended 31 December 2006 and for the six months ended 30 June 2007, respectively.

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INDEBTEDNESS

Borrowings

As at 31 August 2007, for the purpose of this indebtedness statement, the Group had total outstanding borrowings of approximately HK\$1,095.1 million as set forth below:

	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>
	<i>HK\$ 'm</i>	<i>HK\$ 'm</i>	<i>HK\$ 'm</i>
Short-term bank borrowings	31.0	826.8	857.8
Long-term bank borrowings	10.2	—	10.2
Borrowings arising from discounted bills receivables	165.0	—	165.0
Bank overdraft	—	62.1	62.1
	<u>206.2</u>	<u>888.9</u>	<u>1,095.1</u>

On 25 September 2007, the Group obtained two 3-year unsecured term loans and the four 3-year unsecured revolving credit facilities for an aggregate amount of HK\$1.2 billion to finance the payment of the interim dividend and for use as general working capital and other commercial uses. On 3 October 2007, the Group has drawn down an amount of HK\$800 million from the said credit facilities to pay the interim dividend declared.

Securities and guarantees

As at 31 August 2007, certain of the Group's assets comprising accounts receivable, inventories and fixed assets were pledged to secure bank loans of HK\$41.2 million and banking facilities granted to its subsidiaries of HK\$165.0 million. There were guarantees of HK\$65.0 million and HK\$44.6 million in favour of the banks in respect of banking facilities granted to and utilised by an associated company respectively.

Contingent liabilities

Save in respect of the guarantees granted in favour of the banks in respect of banking facilities granted to and utilised by its subsidiaries and an associated company, the Group had no other material contingent liabilities as at 31 August 2007.

Disclaimer

Save as disclosed above and apart from normal trade payables, as at the close of business on 31 August 2007, the Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

Save for the two 3-year unsecured term loans and the four 3-year unsecured revolving credit facilities of an aggregate amount of HK\$1.2 billion, there is no material change in the Group's indebtedness and contingent liability since 31 August 2007.

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QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Group is, in the normal course of business, exposed to market risks relating primarily to fluctuations in interest rates and exchange rates, as well as commodity price risk. The Group's risk management strategy aims to minimize the adverse effects of these risks on its financial performance.

(a) Commodity price risk

The Group is exposed to fluctuations in the prices of goods it purchased from its principals, primarily for the trading of edible oil, sugar, frozen meat and soy beans. The Group makes such purchases at market prices, which may fluctuate and are beyond the Group's control. Therefore, fluctuations in the purchase prices of the Group's goods for trading may have a significant effect on its results of operations. As such, the Group may enter into future contracts to hedge commodity price changes aiming to reduce the impact of these price fluctuations. As at 31 August 2007, some commodity at a cost of HK\$8.2 million was being hedged by future contracts.

The Group may enter into forward contract when it has committed a corresponding purchase order with physical delivery schedule for certain food commodity, with pre-set maximum exposure (open position ceiling) for each kind of product and pre-set the maximum tonnage to be hedged for each type of product. The Group may enter into forward contract for hedging purpose for the following food products: soybean oil, palm oil and sugar. The Group only commenced the hedging transactions since May 2007, and the realised gain since then until 30 June 2007 was about HK\$0.7 million.

(b) Credit risk

The Group's credit risk is primarily attributable to cash and bank deposits as well as trade and other receivables. The Group has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis. The Group's cash and bank deposits are placed with major financial institutions. Trade receivables are presented net of the allowances for doubtful debts.

Credit risk in respect of trade and other receivables is limited because the Group's customer base is comprised of a large number of customers and their dispersion across different industries and geographical areas. The Group has no significant concentration of credit risk. In addition, credit evaluations are performed on all customers requiring credit over a certain amount.

The credit committees of the Group conduct monthly meeting with the senior management of each business unit to review each of the outstanding trade receivable balance on a customer-to-customer basis on their recoverability. For overdue trade receivable, the Group initiates its internal dunning procedures and customer site visits established under the credit policy for collection. The Group also engages professional credit agency to assist the Group on collections from customers with overdue trade receivable. For any extension of payment terms and amount, prior approval of the Group's management is required.

(c) Liquidity risk

The cash management of all operating entities in Hong Kong is centralised, including the raising of loans to cover expected cash demands. Individual operating entities within the Group outside Hong Kong are responsible for their own cash management. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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The Group monitors its current and expected liquidity requirements after taking into consideration of the regular twelve months cash flow forecast, three year budgeted cash flow and quarterly business review. Prior to initiating any new business, each business unit will provide the details of new funding requirements and the relevant cash flow projection for the underlying projects. The Group will from time to time review and arrange sufficient cash or banking facility (bank borrowings) based on the expected liquidity requirements. The funding needs for trading business are usually short-term and fluctuating. Large portion of the Group's banking facilities are short-term and un-committed in order to match with needs and standby purpose. These facilities are usually without financial covenants. Referring to the committed bank lines, the Group will ensure that the consolidated net worth of the Guarantor and its subsidiaries at all times is equal to or exceeds the acceptable level. The Group will ensure that the combined net borrowing will not at any time exceed its combined net worth. The management, group financial controller and the treasury manager will involve in liabilities monitoring.

(d) Interest rate risk

The Group's bank borrowings are mainly denominated in Renminbi, Canadian dollars, Singapore dollars, Japanese Yen and Hong Kong dollars. Due to the Group's borrowings are mainly in short-terms, interest rates are based on prevailing interest rate (such as LIBOR) plus a fixed margin. If necessary, the Group aims to maintain a suitable mixture of fixed rate/floating rate borrowings in order to stabilize interest costs. Interest rate hedging ratio is determined after taking into consideration of the general market condition and trend, the Group's overall cash flow pattern and etc. Interest rate swap and interest rate option may be employed to maintain the desired hedging ratio.

As at 31 August 2007, there were interest bearing bank borrowings of HK\$1,095.1 million, of which HK\$1,091.9 million will mature within a year's time, with effective interest rate 4.8% per annum.

(e) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US dollars and Japanese Yen. The Directors do not expect any significant movement in the exchange rate of US dollars as against the Hong Kong dollars. In addition, the Directors endeavour to ensure that the net exposure is kept to an acceptable level by entering into forward exchange contracts in order to manage the Group's exposure to fluctuation in foreign currency exchange rates on specific transactions. Foreign exchange contracts are matched with anticipated future cash flows in foreign currencies, primarily from purchase. As at 31 August 2007, the Group had recognised net fair value of forward exchange contracts of HK\$20.9 million as derivative financial assets.

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The respective proportion in currency exposure in terms of turnover and purchases for the year ended 31 December 2006 and the six months ended 30 June 2007 and cash and deposits and borrowings as of 31 December 2006 and 30 June 2007 are as follows:

	For the year ended 31 December 2006		As of 31 December 2006	
	Turnover	Purchases	Cash & Bank Deposits Bank Borrowings	
			Bank Deposits	Bank Borrowings
Australian dollars	N/A	0.1%	0.1%	0.0%
British Pounds Sterling	0.2%	6.0%	4.1%	0.0%
Canadian dollars	2.1%	2.4%	0.5%	7.6%
Euro	0.1%	5.3%	3.9%	N/A
Hong Kong dollars	46.4%	13.8%	9.3%	7.5%
Japanese Yen	9.8%	20.7%	15.2%	13.0%
Renminbi	31.3%	27.3%	57.2%	67.9%
Singapore dollars	6.3%	1.5%	2.2%	2.8%
US dollars	3.6%	22.9%	6.9%	1.2%
Others	0.2%	0.0%	0.6%	N/A
Total	100.0%	100.0%	100.0%	100.0%
	For the six months ended 30 June 2007		As of 30 June 2007	
	Turnover	Purchases	Cash & Bank Deposits Bank Borrowings	
			Bank Deposits	Bank Borrowings
Australian dollars	N/A	0.1%	0.2%	N/A
British Pounds Sterling	0.3%	5.9%	0.2%	0.7%
Canadian dollars	2.4%	4.7%	0.5%	6.8%
Euro	0.0%	5.4%	2.5%	N/A
Hong Kong dollars	43.4%	9.5%	13.4%	6.0%
Japanese Yen	11.2%	21.4%	15.4%	15.9%
Renminbi	32.1%	28.8%	55.0%	66.1%
Singapore dollars	6.2%	1.8%	1.1%	3.3%
US dollars	4.1%	22.4%	10.8%	1.2%
Others	0.3%	0.0%	0.9%	N/A
Total	100.0%	100.0%	100.0%	100.0%

For bank borrowings, each business unit's income currency generally matches with their liabilities. For operations that involve foreign currency denominated receivables and payables, the Group's treasury policy has the following guidelines:

- Back-to-back foreign currency transactions (indent orders) should be fully hedged in order to protect the Group's profit margin
- Hedging position equals to hedged stocks/WIP, plus foreign exchange receivables and booked forward contracts

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- Total exposure equals to hedged positions, plus unhedged stock/WIP, foreign exchange payables and committed orders

For Hong Kong business units of motor segment, minimum hedging positions should not be less than 25% of total exposure or one month cost of sales, whichever is higher.

Minimum hedging positions for other business units are determined by their management where and when necessary.

Generally, over-hedging is not allowed. In case a business unit applies for over-hedging, each transaction should be approved by the Chief Executive Officer of the Group individually and under no circumstance should a business unit enter into foreign exchange transactions for the purpose of position taking without prior approval from the finance department of the Group.

Foreign exchange swap or forward contract (include non-deliverable forward) and foreign exchange option may be employed to minimize the net exposure to foreign currency fluctuations. Derivatives can be applied in hedging only if the product is reviewed and approved by the finance department of the Group.

For hedging vehicles consist of variable contract amount (e.g. Accumulator, European knock-out forward), the business units should count the largest contingent obligation for calculation of their hedging positions. Details of exposures and all outstanding forward contracts should be provided to the finance department of the Group on a monthly basis for management's review.

In general, the business units of the Group will hedge its foreign currency exposure by forward contracts and forward rates are applied to calculate the cost of overseas purchases.

The unutilized foreign currency at the year end including foreign currency receivable and foreign currency taking up from forward contracts totally recognized an exchange gain of HK\$16.0 million as of 31 December 2006 and HK\$5.8 million as of 30 Jun 2007.

Off-Balance Sheet Arrangements

The Group does not have any off-balance sheet transactions. The Group is expected to be able to minimise its exposure to the above mentioned risks by the existing control policies and procedures.

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PROPERTY INTERESTS

Knight Frank Petty Limited, an independent property valuer, has valued the Group's property interests, including land use rights, as at 31 July 2007 at approximately HK\$1,327.6 million. The text of its letter, summary of valuation and valuation certificates are set out in Appendix IV to this Prospectus.

A reconciliation of the net book value of the relevant property interest, including land use rights, as at 30 June 2007 to their fair value as at 31 July 2007 as stated in Appendix IV to this Prospectus is as follows:

	<i>HK\$'000</i>
Net book value of the investment properties as at 30 June 2007 as per the combined balance sheets Appendix I to the Prospectus	
Investment properties	697,622
Land and buildings held for own use	283,336
Lease prepayments of land use rights	<u>134,511</u>
	1,115,469
Interest attributable to minority shareholder of a subsidiary for an investment property in the PRC	(3,300)
Valuation surplus for land and buildings for own use and lease prepayments, net of minority shareholders' interest	194,200
Valuation surplus for a property rented by the Group in the PRC and sub-leased to a third party	<u>8,300</u>
	1,314,669
Valuation surplus for investment properties during July 2007	10,756
Valuation surplus for land and buildings for own use and lease prepayment during owner-occupation in July 2007	<u>2,176</u>
	1,327,601
Valuation as at 31 July 2007 as per Appendix IV to this Prospectus	<u><u>1,327,601</u></u>

Certain of the Group's properties or properties where the Group operates its business have certain title defects. See "Business — Properties."

According to relevant PRC regulations, in respect of owned properties, since land use right certificates have been obtained, the Group will be able to obtain building ownership certificates by complying with the relevant procedures. Buildings on these properties have already passed property inspection tests conducted by the relevant PRC governmental authority. Accordingly, the PRC legal advisers of the Company were of the opinion that there was no foreseeable legal impediment to obtaining the relevant land use right certificates and building ownership certificates for the Group's owned properties. The Directors expect the relevant land use right certificates and building ownership certificates to be obtained by the end of 2007.

In respect of leased properties, once the land use right certificates have been obtained by their landlords, the landlords will be able to obtain building ownership certificates by complying with the relevant procedures. So long as landlords comply with such procedures as advised by the Company's legal advisers, there is no foreseeable legal impediment to the landlords obtaining such certificates, and the Directors are of the view that there will be no material adverse impact on the Group's operations in the meantime. In addition, the controlling shareholder has given an indemnity to the Group in respect of any claim, loss or expenses suffered or incurred by the Group arising out of or in connection with these properties with respect to any defects in title.

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PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2007

HK\$
(in million)

Forecast combined profit attributable to equity shareholders of the Company ⁽¹⁾	not less than 415.6
Before:	
(i) Net valuation gains on investment properties (net of deferred taxation effect) ⁽²⁾	(49.6)
(ii) Losses from discontinued operations ⁽³⁾	18.3
(iii) Pre-IPO Share Option Scheme ⁽⁴⁾	22.3

Net forecast combined profit attributable to equity shareholders of the Company before (i) net valuation gains on investment properties, (ii) losses from discontinued operations and (iii) Pre-IPO Share Option Scheme	not less than 406.6
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	After (i) net valuation gains on investment properties, (ii) losses from discontinued operations and (iii) Pre-IPO Share Option Scheme	Before (i) net valuation gains on investment properties, (ii) losses from discontinued operations and (iii) Pre-IPO Share Option Scheme
	<i>HK\$</i>	<i>HK\$</i>
Pro forma forecast earnings per share		
— Fully diluted ⁽⁵⁾	0.229	0.224
— Weighted average ⁽⁶⁾	0.231	0.226

Notes:

- (1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2007 has been prepared and summarized in Appendix III to this Prospectus. The Directors have prepared the forecast combined profit attributable to equity shareholders of the Company for the year ending 31 December 2007 based on the audited combined results of the Group for the six months ended 30 June 2007, the unaudited combined management accounts of the Group for the month ended 31 July 2007 and a forecast of the combined results of the Group for the remaining five months ending 31 December 2007. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in note 1 of Section C of the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.
- (2) Under HKFRSs, gains or losses arising from changes in fair values of investment properties recognised in the income statement in the period in which they arise. Assumptions are set out in the sub-section headed "Assumptions with respect to valuation gains on investment properties" in Appendix III to this Prospectus.
- (3) Under HKFRSs, gains or losses arising from the discontinued operations are included in the period in which they arise.
- (4) Under HKFRSs, the fair value of the share options granted under the Pre-IPO Share Option Scheme is recognised in the combined income statement with a corresponding increase in amount due to the ultimate controlling party as the expense will be settled in cash by the Group. The fair value is measured at the grant date using binomial model (an applicable option-pricing model) based on the Offer Price of HK\$5.22. Assumptions are set out in the sub-section headed "Assumptions with respect to Pre-IPO Share Option Scheme" in Appendix III to this Prospectus.

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- (5) The calculation of the pro forma forecast earnings per share on a fully diluted basis is based on the forecast combined profit attributable to equity shareholders of the Company for the year ending 31 December 2007, assuming that the Company had been listed on the Stock Exchange since 1 January 2007 and that a total of 1,818,000,000 Shares had been in issue during the entire year. The calculation is based on the assumption of 1,800,000,000 Shares expected to be in issue and 18,000,000 Shares expected to be exercised under the Pre-IPO Share Option Scheme following the Global Offering.
- (6) The calculation of the pro forma forecast earnings per share on a weighted average basis is based on the forecast combined profit attributable to equity shareholders of the Company for the year ending 31 December 2007 and a weighted average number of approximately 1,800,000,000 Shares assumed to be in issue during the year. This calculation assumes no exercise of the options that may be granted under the Pre-IPO Share Option Scheme.

DIVIDENDS, WORKING CAPITAL AND DISTRIBUTABLE RESERVES

Dividends

Dividends in the amounts of HK138.8 million, HK138.8 million and HK\$138.8 million were declared by the Company during the years ended 31 December 2004, 2005 and 2006, respectively. Such dividends were paid in cash and out of the distributable profits of the Company. In addition, an interim dividend of approximately HK\$900 million was declared and paid before the Listing Date to its controlling shareholders. In determining the amount of the above interim dividend, the Directors have taken into account the level of the Group's retained earnings, the expected cash flow and the Group's assets and liabilities and consider that the size of such dividend is approximately around HK\$900 million and the size of the Global Offering is approximately HK\$5,281.4 million assuming an Offer Price of HK\$5.88 and the full exercise of the Over-allotment Option. HK\$800 million of such interim dividend was financed partly by new bank borrowings comprising two 3-year unsecured term loans and four 3-year unsecured revolving credit facilities. See "Risk factor — Dividend declared immediately prior to Listing and dividend policy not indicative of future dividends." The Directors confirmed that during the three years ended 31 December 2006 and the six months ended 30 June 2007 all dividends were paid during periods when the Company was able to pay its debts as they became due.

Subject to the availability of the Company's cash and distributable reserves, the Group's investment requirements, and the Group's cashflow and working capital requirements, the Directors currently intend to declare and recommend dividends which would amount to not less than 30% of the net profit, if any, from ordinary activities for the first financial year subsequent to the Global Offering. The Group's general dividend policy is to determine the dividend on any given year with reference to the net profit generated and dividends are funded by a combination of the Group's operating cash flow and internal financial resources. Going forward, the Company currently expects to maintain a general policy that not less than 30% of its profits available for distribution in each year commencing from the Listing Date 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 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. 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 be dependent upon the Group's future operations, earnings, financial condition, business needs, prospects, cash requirements and availability and other factors as the Board may deem relevant at such time.

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The timing, amount and form of future dividends, if any, 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 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.

There are 2 types of PRC subsidiaries:

- Foreign invested enterprises

Pursuant to articles of association of certain subsidiaries of the Group incorporated in the PRC, these subsidiaries are required to transfer their profits after taxation to the general reserve fund. The amounts allocated to this reserve are determined by the respective boards of directors.

- Domestic Enterprises

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC are required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, 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 a dividend to shareholders.

Working capital

As of 31 December 2006, the cash and bank deposits amounted to approximately HK\$741.7 million. As of 30 June 2007, the cash and bank deposits amounted to approximately HK\$649.5 million.

The Directors are of the opinion that, taking into account the present available banking facilities, internal resources (including cash and bank deposits) of the Group and the estimated net proceeds of the Global Offering, the Group has sufficient working capital for its requirements in the next 12 months commencing from the date of this Prospectus.

FINANCIAL INFORMATION

Distributable reserves

Subject to the Companies Ordinance and the articles of association of the Company, as referred to in section headed “Dividends” in Appendix V to this Prospectus), the Company may pay dividends out of its retained profits. The Company’s ability to distribute dividends depends on, among other factors, the available balance of retained profits and distributable profits and the cash flow of the Company (but not the Group).

As at 30 June 2007, being the date to which the latest financial statements of the Group were made up, the Company had distributable reserves amounting to HK\$1.5 billion.

Capital Commitments

The following table sets forth the aggregate amounts of the Group’s capital commitments as at 30 June 2007:

	<i>HK\$’ million</i>
Capital commitments in respect of plant, property and equipment	99.0
Operating lease commitments in respect of future minimum lease payment under non-cancellable operating leases comprising	
(a) Commitments on properties	522.9
(b) Commitments on others	0.2

The Group’s capital commitments in respect of plant, property and equipment outstanding as at 30 June 2007 was HK\$99.0 million, of which HK\$98.0 million has been contracted for and HK\$1.0 million has been authorised but not contracted for. All of the capital commitments are expected to be paid within this year. The largest capital commitment in the amount of HK\$75.7 million will be paid by the IPO proceeds, and the balance will be by internal funding.

As at 30 June 2007, the Group’s operating lease commitments in respect of future minimum lease payment under non-cancellable operating leases comprises HK\$522.9 million of operating leases for property and HK\$0.2 million of operating leases for others. These leases typically run for an initial period of one to ten years, with an option to renew the leases when all the terms are renegotiated. None of these leases includes contingent rentals.

Of the HK\$522.9 million commitments in respect of operating leases for property, HK\$191.5 million would be payable within one year, HK\$210.3 million after one year but within five years and the balance of HK\$121.0 million after five years.

Of the HK\$0.2 million commitments in respect of operating leases for others, HK\$0.16 million would be payable within one year and the balance would be after one year but within five years.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2007. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 June 2007 or at any future date.

	Adjusted net tangible assets of the Group attributable to the equity shareholders of the Company as at 30 June 2007⁽¹⁾ HK\$' 000	Interim dividend⁽²⁾ HK\$'000	Estimated net proceeds of the Global Offering to be received by the Group⁽³⁾ HK\$' 000	Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the Company HK\$' 000	Unaudited pro forma adjusted net tangible asset value per Share⁽⁴⁾ HK\$' 000
Based on Offer Price of HK\$4.55 per Offer Share	<u>3,687,282</u>	<u>(900,000)</u>	<u>776,300</u>	<u>3,563,582</u>	<u>1.98</u>
Based on Offer Price of HK\$5.88 per Offer Share	<u>3,687,282</u>	<u>(900,000)</u>	<u>1,009,700</u>	<u>3,796,982</u>	<u>2.11</u>

Notes:

- The adjusted net tangible assets of the Group as at 30 June 2007 is based on the audited combined net assets of the Group attributable to the equity shareholders of the Company of HK\$3,900,535,000 as at 30 June 2007 extracted from the Accountants' Report set out in Appendix I to this Prospectus with an adjustment for the goodwill and intangible assets of HK\$170,092,000 and HK\$43,161,000 respectively as at 30 June 2007.
- An interim dividend of approximately HK\$900 million was declared and paid before the Listing Date to its controlling shareholders. For illustrative purpose, the interim dividend was assumed to be declared and paid on 30 June 2007.
- The estimated net proceeds from the Global Offering to be received by the Group are based on the Offer Prices of HK\$4.55 and HK\$5.88, after deductions of the underwriting fees and other related expenses payable by the Group. No account has been taken of the Shares which may fall to be issued upon exercise of the Over-allotment Option and the options that may be granted under the Pre-IPO Share Option Scheme.
- The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 1,800,000,000 Shares expected to be in issue following the Global Offering and Capitalisation Issue and the respective Offer Prices of HK\$4.55 and HK\$5.88, but takes no account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Pre-IPO Share Option Scheme.

FINANCIAL INFORMATION

5. With reference to the valuation of property interests of the Group as set out in Appendix IV to this Prospectus, the aggregate revalued amount of the property interests of the Group as at 31 July 2007 was about HK\$1,327.6 million. The unaudited net book value of these property interests as at 31 July 2007 was about HK\$1,124.6 million. The revaluation surplus for land and buildings for own use, lease prepayments and a property rented by the Group and sub-leased to a third party is about HK\$203.0 million and has not been included in the above adjusted net tangible assets of the Group. Such revaluation surplus has not been recorded in the Financial Information as set out in Appendix I and will not be recorded in the financial statements of the Group for the year ending 31 December 2007 as the Group's property, plant and equipment and lease prepayments are stated at cost less accumulated depreciation or amortisation and impairment losses if any. If such revaluation surplus would be included to the financial statements of the Group for the year ending 31 December 2007, an additional depreciation of approximately HK\$6.4 million per annum would be incurred.

6. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2007.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

The Directors have confirmed that as at the three years ended 31 December 2006 and the six months ended 30 June 2007, they are not aware of any circumstances which would give rise to a disclosure under rule 13.13 to rule 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there is no adverse material change in the financial or trading position or prospects of the Group since 30 June 2007 (being the date to which the latest financial statements of the Group were made up).